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BALTIC M&A MONITOR 2021

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CONTENTS

Foreword	3
M&A Overview 2020	4
The Baltics in the European Context	12
Sector Watch and Regulation	16
Baltic Outlook 2021	22
About Ellex	24
About Ellex M&A Team	25
About Mergermarket	26

FOREWORD

Welcome to the 2021 edition of the Baltic M&A Monitor, a comprehensive review of M&A activity in the Baltics published by law firms' circle Ellex, in association with Mergermarket. The report scrutinises dealmaking trends in the three Baltic states – Estonia, Latvia and Lithuania – including insights into key sectors and forecasts for the year ahead.

The Baltics collectively recorded 70 M&A deals worth a publicly-announced total of almost €1.2bn in 2020. These relatively small, open European economies were, of course, affected by the economic impact of the COVID-19 pandemic. However, swift and decisive government action kept businesses going and underpinned investor confidence in the region.

Dealmaking volumes rose marginally from 2019's 67 deals, thanks in large part to a surge of activity late in the year, while aggregate value remained consistent year on year (€1.194bn in 2019; €1.196bn in 2020). Evidently, as in line with the experience of Ellex's partners, investor appetite remains strong, in spite of the turbulence created by the coronavirus crisis. Some delayed deals should be finalised in early 2021, and healthy momentum was maintained through smaller transactions.

With several big deals brewing and the three Baltic economies expected to grow by 3% or more in 2021, there are hopes that M&A could even return to levels seen in 2018, a record year with 75 deals worth €2.75bn in aggregate.

The region's technology, media and telecoms sector has been a magnet for investment, and in 2020 topped the table in terms of deal volume and value generated. The industry benefits from a high-skilled labour pool, international connectivity

and long-term government support; Estonia has nurtured household names such as Skype, while Lithuania is building a reputation as a fintech hub.

The growing strength of domestic investors – including regional corporates, private equity firms and high-net-worth individuals who have exited tech businesses – saw local transactions lead the way, accounting for 57% of volume and 46% of total value (the largest such share in more than five years). Yet the region is of increasing interest to international investors, with six of the ten largest transactions coming from extra-regional bidders.

The region enters 2021 with optimism tempered with caution. The roll-out of vaccines promises an easing of restrictions internationally and has reinvigorated consumer and investor confidence. But a resurgence of COVID-19 early in the year may lower growth expectations, and the medium-term outlook is somewhat clouded by uncertainties over inflation and debt sustainability. Regulatory challenges persist, particularly in banking and company registration, as the region cleans up after money-laundering scandals in past years. Yet the Baltic nations' competitive strengths as fast-growing, tech-savvy and increasingly wealthy European Union member states guarantees long-term investor interest.

As ever, we welcome feedback from readers, and hope you find this report to be both engaging and enlightening.

M&A OVERVIEW 2020

In a year defined by the COVID-19 pandemic, M&A activity in the Baltics demonstrated remarkable resilience

In all, a total of 70 deals worth nearly €1.2bn were recorded in the Baltic States in 2020, up slightly from the 67 deals worth around the same sum (€1.194bn) in 2019. More than 45% of the total deal value – €549m – can be attributed to just three deals: the Latvian government's €250m funding injection into airBaltic; the €150m raised by Bolt Technology; and the €149m acquisition of Vincent Group.

These strong headline numbers are all the more impressive considering the context of a deep global recession and caution among dealmakers internationally. Moreover, the aggregate deal value figure does not take into account deals of undeclared value, which are not uncommon in the Baltics. There besides, Mergermarket data does not include deals worth under \$5m, which account for a significant share in these lively but relatively small markets.

The European Commission expects all three economies to see growth of 3% or above in 2021. While Latvia's GDP shrank by an estimated 5.6% in 2020, it is forecast to grow by 4.9% in 2021, one of Europe's highest rates. In Estonia, the economy is forecast to bounce back to 3.4% growth in 2021, after a drop of 4.6%. And Lithuania is expected to see growth of 3%, having experienced a relatively mild 2.2% recession in 2020.

PE activity in the Baltics was also slightly ascendant in 2020, with PE M&A volume up to 17 deals from 15 in 2019, and aggregate value rising slightly to €301m from €283m. Rising interest in the region from global PE firms on the hunt for yield – as well

M&A activity surpasses expectations

"The bottom line is that our office has had a very good year. It's been really counterintuitive, given the COVID-19 situation and economic difficulties. But our transaction work has been much greater than we expected.

Resilience has been a historical characteristic of the Baltics. This was very apparent in the global financial crisis and again last year when we had a very extreme situation."

*Raimonds Slaidiņš, senior partner,
Ellex in Latvia*



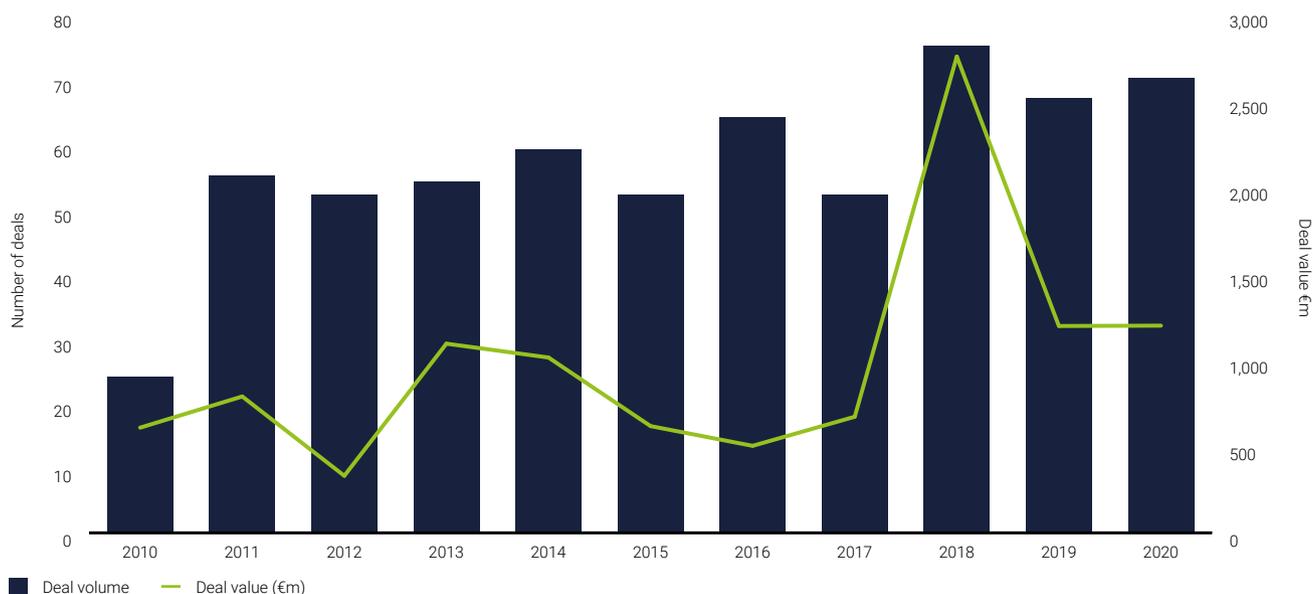
Pent-up deals will boost 2021 numbers

"The second half of 2020 actually saw more deals than the second half of 2019. While the pandemic and related uncertainty certainly slowed the number of larger deals, we expect these to move forward in the next year."

*Paulius Gruodis, partner,
Ellex in Lithuania*



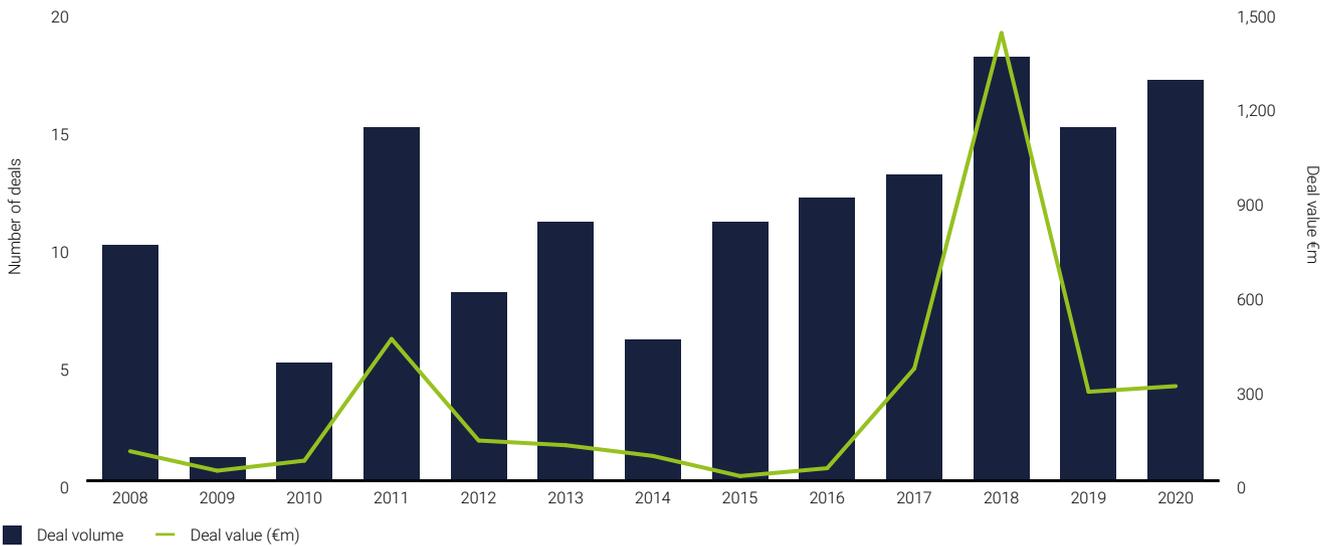
Baltic M&A, 2010-2020



Top 10 Baltic M&A deals 2020

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value (€m)
08/05/2020	Air Baltic Corporation AS (10.95% Stake)	Transportation	Latvia	Government of Latvia	Latvia	-	-	250
16/12/2020	Bolt Technology OU	TMT	Estonia	D1 Capital Partners L.P.; Darsana Capital Partners LP	USA	-	-	150
16/11/2020	Vincent Group Plc	TMT	Estonia	GAN Limited	United Kingdom	-	-	149
28/10/2020	Valmieras Stikla Skiedra AS (83.14% Stake)	Industrials & chemicals	Latvia	Warwick Capital Partners LLP	United Kingdom	-	-	120
09/01/2020	Danske Bank A/S (Lithuanian branch retail loan portfolio)	Financial services	Lithuania	Siauliu Bankas AB	Lithuania	-	-	108
26/05/2020	Bolt Technology OU	TMT	Estonia	Naya Capital Management UK Limited	United Kingdom	-	-	100
21/07/2020	Conexus Baltic Grid AS (34.1% Stake)	Energy, mining & utilities	Latvia	Augstsprieguma Tikls AS	Latvia	Gazprom PJSC	Russia	77
31/08/2020	Forum Cinemas SIA; Forum Cinemas OU Lietuvos filialas; Forum Cinemas OU	Leisure	Estonia	UP Invest OU	Estonia	Finnkino Oy	Finland	65
24/11/2020	Drops	Business services	Estonia	Kahoot! AS	Norway	PlanB Labs OU	Estonia	42
03/11/2020	Skeleton Technologies OU	Industrials & chemicals	Estonia	AS Harju Elekter; FirstFloor Capital Sdn Bhd; MM Grupp OU; KIC Innoenergy SE	Netherlands	-	-	41

Baltic private equity, 2008-2020



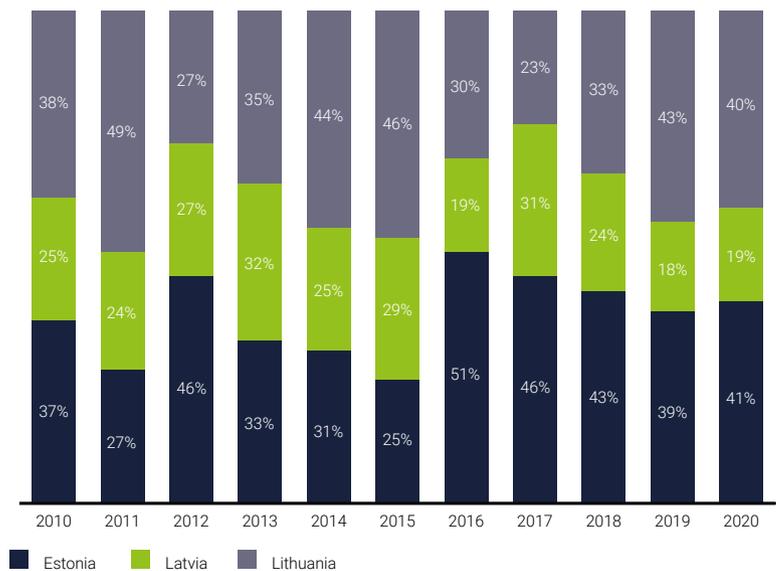
as the emergence of regional funds – means the alternative finance space is likely to be a long-term growth area.

Estonia

Estonia accounted for 41% of M&A deals overall by volume, followed closely by Lithuania (40%), and then Latvia (19%). These figures are barely changed from the year before, suggesting that 2020's headwinds have affected the countries fairly equally. Notably, however, Estonia did overtake Lithuania, with the latter representing 43% of total deal volume in 2019 against the former's 39%, reasserting Tallinn's leading position in the trinity over the last few years.

Estonia enjoyed a record dealmaking year in 2018, with 32 deals worth €2.3bn, so it is unsurprising that the two following years have been quieter: 26 transactions worth €415m in total were announced

Baltic deal volume by country



in 2019, rising to 29 worth €590m in 2020. The market was buoyed by Estonia generating six of the top ten deals of the year – despite being the smallest country by population.

Lithuania

Lithuania logged total deal value of €154m, a 64% decrease from 2019's €434m. However, the aggregate was still above 2018, when just €43m worth of deals were announced. This indicates many investors were willing to go through with significant acquisitions despite the challenging circumstances, and bodes well for 2021 as postponed transactions recommence. Lithuania recorded 28 deals in 2020, down from 29 the previous year, but still above the average annual figure (20.4) posted since 2010.

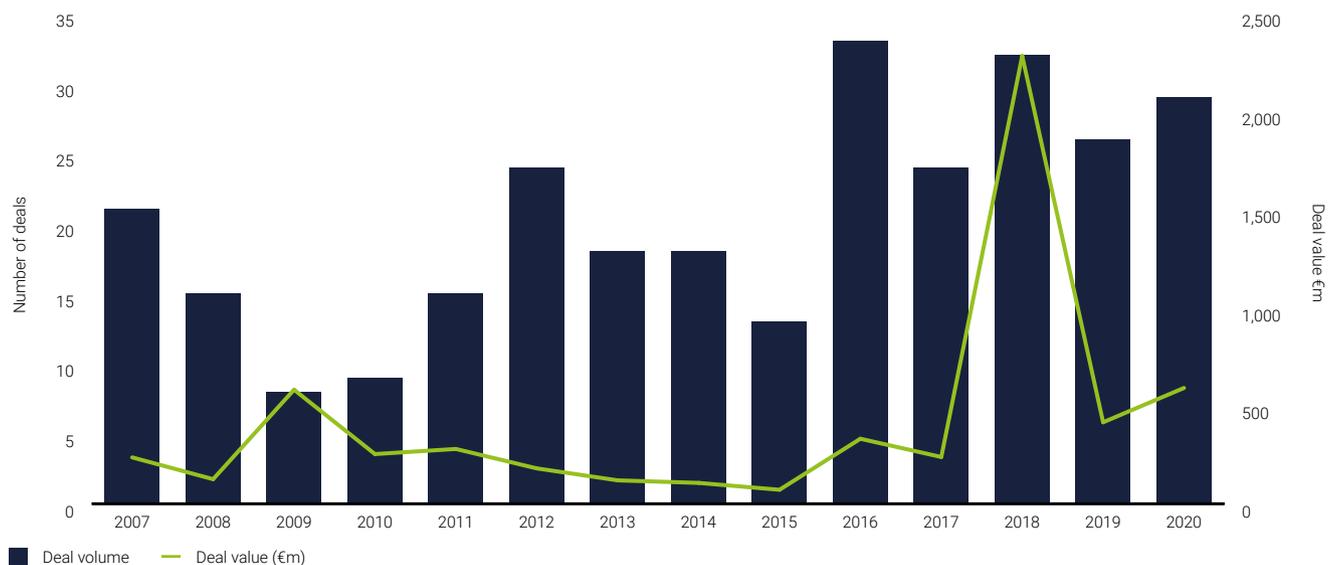
Government support facilitated summer revival

"The market had a shock early in 2020, and nobody knew what was going to happen. But after a few months, when the government had announced its subsidy programme, and private banks declared payment holidays for loans and other measures, things started to settle. Support allowed companies to live through the difficulties, and by the beginning of the summer we started to see deals come in."

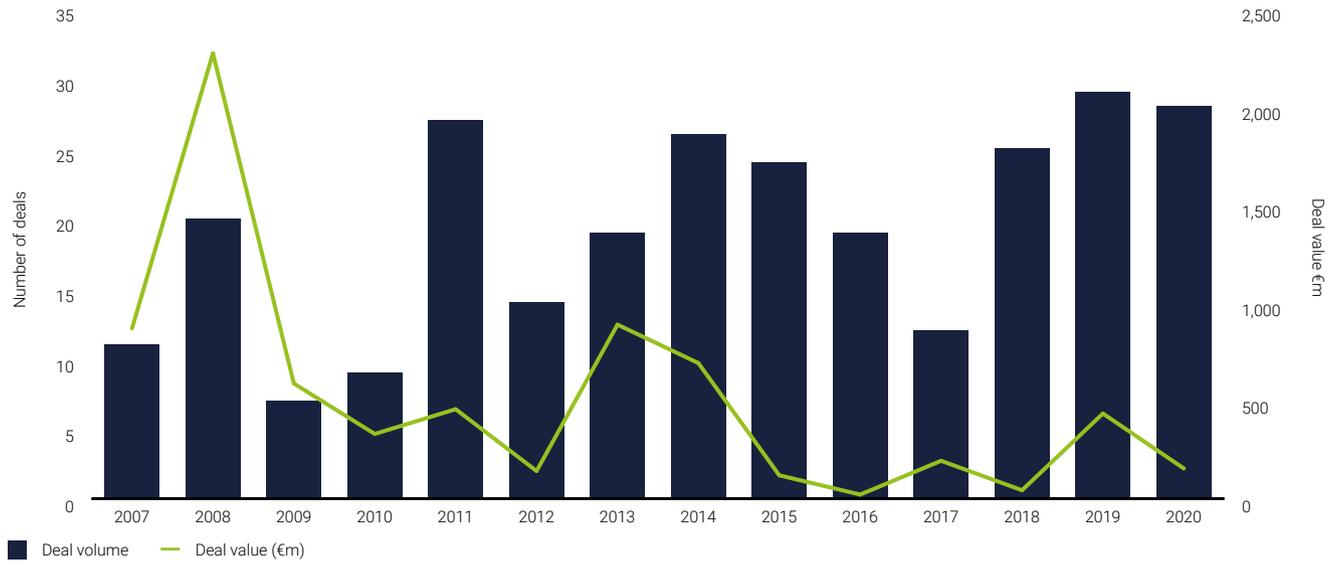


Sven Papp, partner,
Ellex in Estonia

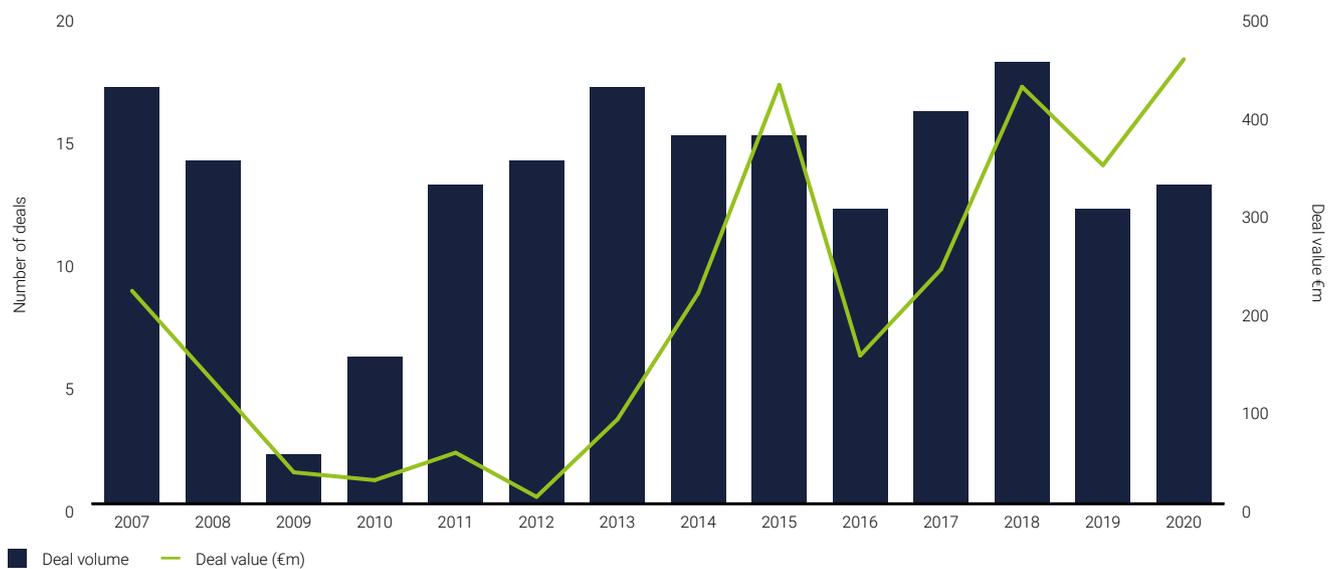
Estonia M&A, 2007-2020



Lithuania M&A, 2007-2020



Latvia M&A, 2007-2020



Latvia

Latvia, although contributing the smallest share of M&A among the three nations, relatively speaking enjoyed the strongest year in dealmaking.

Aggregate value leapt to €453m (the highest sum of the decade) across a total of 13 deals from 2019's €345m on 12 deals. The country contributed the largest transaction of the year in the Baltics, with the Latvian government injecting €250m into airBaltic. The government is the largest shareholder in the airline and approved the transaction in May to mitigate the impact of the pandemic on the country's flag carrier, which plays an important role in supporting regional connectivity. The Latvian state now has a 91% stake in the airline, and the government aims to recover its investment via an IPO.

Flag carrier invaluable to region

"AirBaltic has been such a dominant player in the Baltics, and such a success story. The government has had to support it, but the airline has had a positive effect on the economy in Latvia becoming a regional hub. It has been a positive force for investment in making it easy to travel here from all major European capitals. The government would love to have a good private investor in there."

*Raimonds Slaidiņš, senior partner,
Ellex in Latvia*



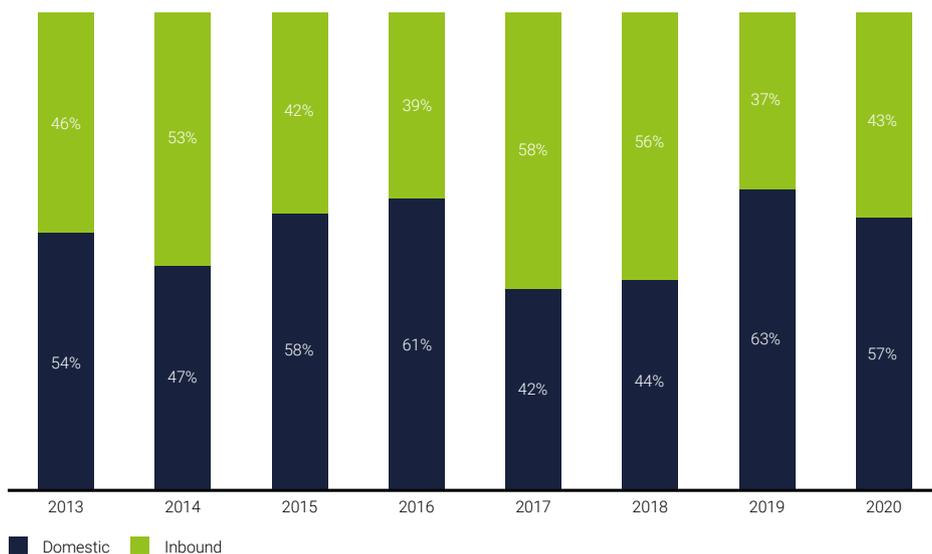
Extremely busy time expected to continue into 2021

"The appetite for deals in H2 2020 grew rapidly, which kept M&A teams in the Baltics extremely busy. This is partly because many suspended deals were signed and completed only after a three-month pause caused by the first COVID-19 wave in March, when most of the deals were frozen. The other material factor impacting the market was the positive outlook from banks and other financiers which 'made the leveraged buy-outs great again'. We expect that trend to continue into 2021."

Ermo Kosk, partner, Ellex in Estonia



Inbound vs domestic M&A volume



Domestic durability

Deal volume regionally continues to be led by domestic transactions, which accounted for 57% of the total in 2020 – though this was down six percentage points from 2019. Inbound M&A has only outweighed domestic activity in volume terms three times (in 2014, 2017, and 2018) since reporting started.

Domestic transactions also accounted for 46% of total deal value, up from 35% in 2019. Domestic deals' contribution to overall aggregate value has been rising, climbing from just 16% in 2017 and 21% in 2018. This partly reflects the growing strength of Baltic funds and corporates, as well as regional consolidation and, in 2020, government intervention. The last time domestic dealmaking accounted for a larger share than inbound M&A was

International appetite for Baltic energy

"We see international growth equity looking for a safe haven, particularly given inflationary concerns that some are having. Baltic infrastructure and energy deals are really on the table there."

*Risto Vahimets, partner,
Ellex in Estonia*



2014, when the proportion reached 51%, a fall from its 81% share in 2013.

Almost half of overall inbound deal value (€646m) can be attributed to two deals: the €150m raised by Bolt Technology from US-based private equity and investment advisory firms; and the €149m acquisition of Estonian online gaming operator Vincent Group by UK-based gambling software company GAN Limited. These were the second- and third-largest deals of 2020 overall, respectively, and extra-regional bidders were involved in six of the ten biggest transactions of the year.

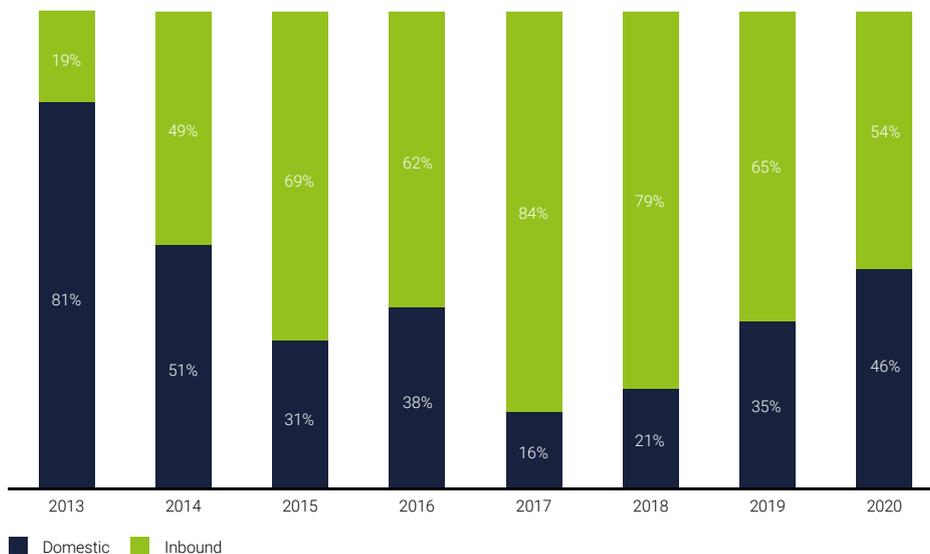
The Baltics have become something of a sweet spot for international investors in recent years. They offer the stability and security of EU membership, high income levels and legislative frameworks favourable to business, while their

Deal volume regionally continues to be led by domestic transactions, which accounted for 57% of the total in 2020

economic growth has outstripped that of most Western European countries.

They have also developed particular competitive advantages in technology and innovation thanks to a highly-skilled workforce and government support. This dovetails with a high-tech manufacturing sector that may benefit from a trend towards nearshoring supply chains in Europe over the coming decade. There is also scope for investment in big-ticket utilities and infrastructure deals, particularly as the region leverages its natural advantages in renewable energy.

Inbound vs domestic deal value



THE BALTICS IN THE EUROPEAN CONTEXT

In the face of a major global crisis, it is fair to surmise that the Baltics exceeded expectations in Europe

Europe as a whole has been hit especially hard by the COVID-19 pandemic. M&A volumes dropped 17% to 6,789 transactions from the 8,151 announced in 2019 – versus the slight increase in volumes recorded in the Baltics.

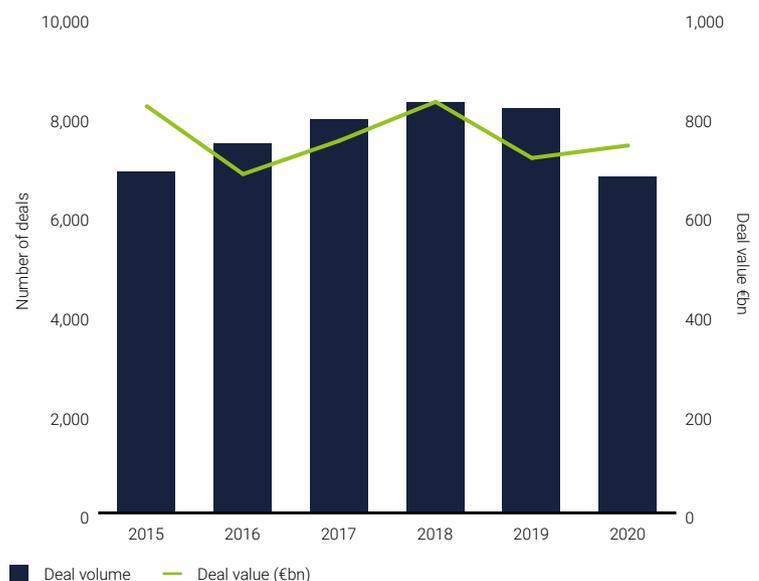
In aggregate value terms, Europe ultimately recorded a small year-on-year increase to €741bn from €715bn in 2019, similar to the slight uptick logged in the Baltic states, thanks to a flurry of end-of-year activity.

Global PE has a large stock of dry powder, and with PE activity in the Baltics expected to rise in the long term thanks to global interest and the growing strength of regional players, Baltic targets are likely to feature in the coming years. The 2020 figures can already be taken as evidence of this: PE deal volumes increased slightly to 17 against 15 in 2019, and aggregate value remained consistent, in spite of the COVID-19 crisis.

Europe-wide, PE volume dropped to 1,977 in 2020 from 2,194 the year before. However, aggregate value actually shot up, from €237bn to almost €300bn. This suggests that cash-rich international PE players were most interested in opportunities in larger, established markets during an uncertain year for global markets. Nonetheless, as top-10 deals such as those involving TMT darling Bolt Technology and glass

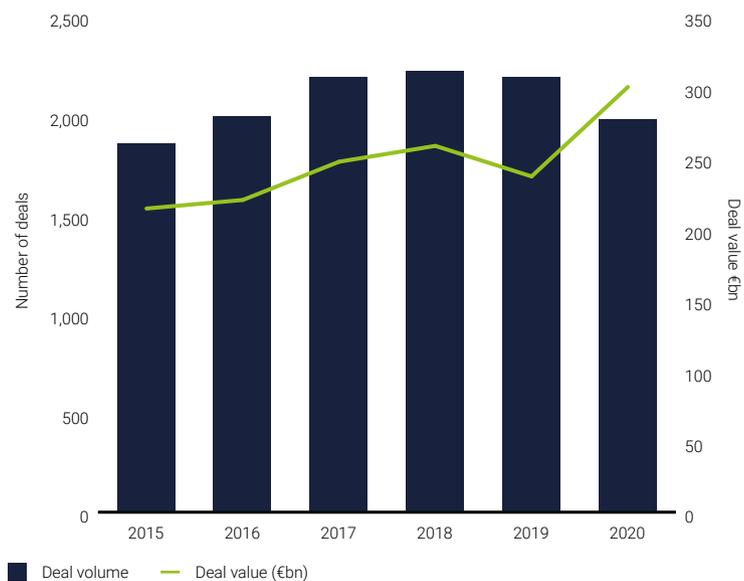
European M&A volumes dropped 17% to 6,789 transactions from the 8,151 announced in 2019 – versus the slight increase recorded in the Baltics

European M&A, 2015-2020





European private equity, 2015-2020

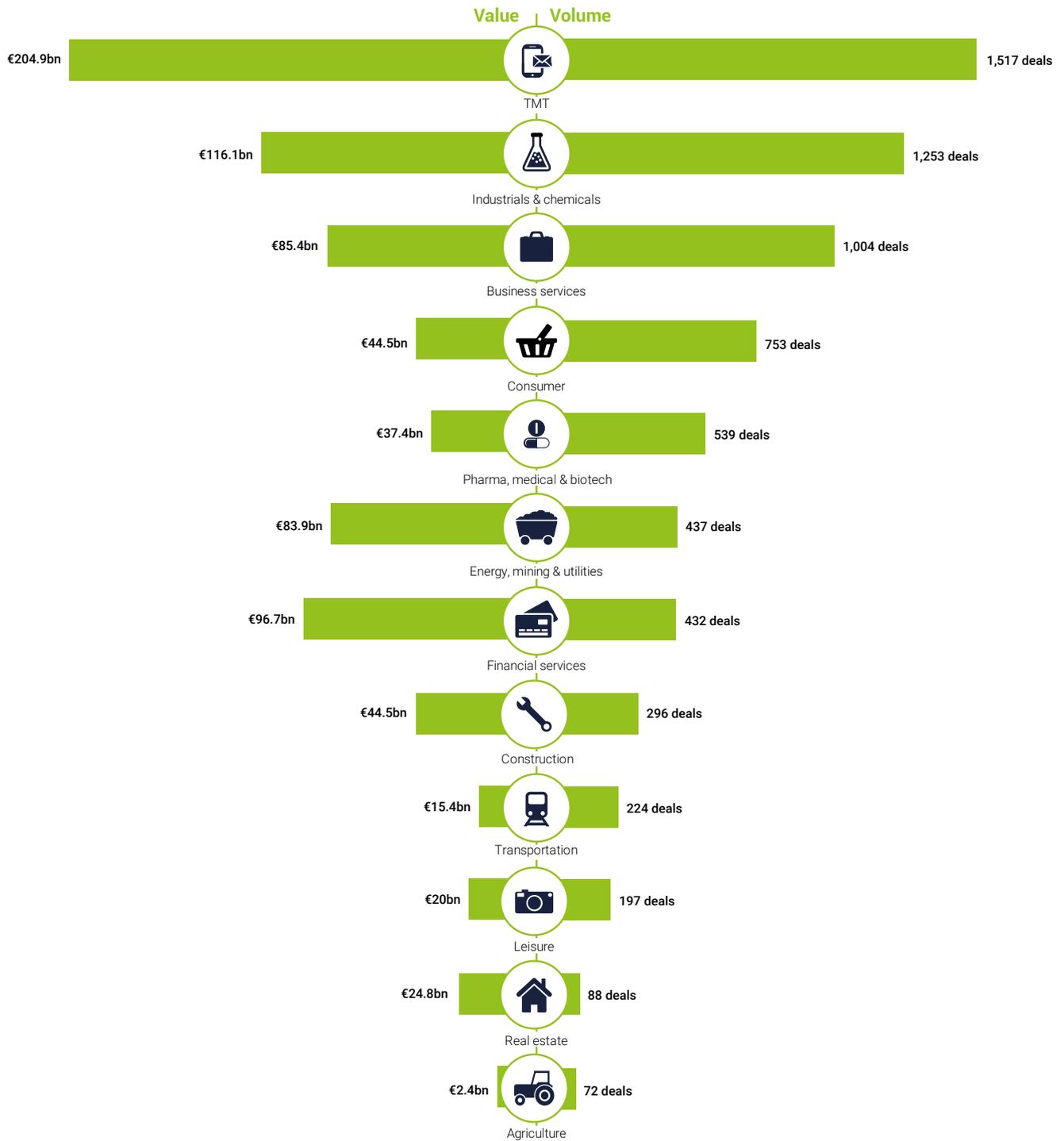


fibre specialist Valmieras Stikla Skiedra suggest, international PE and investment managers still found valuable deals in the Baltics in 2020.

Tech and services dominate

In volume terms, the Baltic market tracked Europe-wide sector trends, with TMT the most active sector both in the region and across the continent as a whole, followed in both cases by industrials & chemicals and business services. These three sectors were responsible for many of the largest headline deals in Europe and Central & Eastern Europe. The financial services sector also contributed some significant deals, as consolidation continues in segments including banking and insurance. The single biggest deal of the year in Europe was in business services, with business information giant S&P Global acquiring counterpart IHS Markit for €36.1bn.

European M&A volume and value by sector



TMT accounted for nearly 28% of total deal value across Europe, with publicly-announced transactions worth €205bn, including two of the three biggest deals. The second-largest transaction of the year was the €32.5bn acquisition of SVF Holdco – owner of semiconductor and software company Arm – by US-based Nvidia from Japan’s SoftBank, the biggest-ever deal in the semiconductor industry. The third saw billionaire Patrick Drahi acquire full ownership of Altice Europe, the company he founded that owns French telco SFR. Drahi acquired the 50.66% stake owned by other shareholders for €32.2bn.

Model citizens

The Baltics performed well compared to CEE as a whole. Across CEE, deal volumes fell from 543 in 2019 to just 414 in 2020, a 24% decline, versus the slight increase in the Baltics. The robustness of the Baltic market saw its share of CEE aggregate deal value rise to 14%, up three percentage points from 2019, and its largest share of the past six years.

The implications of these results are that, despite their small size, the Baltics retain robust appeal to investors, thanks to their wealth, stability and resilience in the face of crises. These factors, combined with Baltic countries’ global competitiveness in high-tech sectors, as well as decisive government action to tackle the effects of COVID-19, should stand the region in very good stead for the expected economic recovery in the years to come.

Baltic v CEE M&A volume, 2015-2020



Estonia leaving an impression on the world

“What’s encouraging is that there have been sizeable deals involving global players. Estonia is on the map, and going strong.”

Sven Papp, partner, Ellex in Estonia



SECTOR WATCH AND REGULATION

The Baltics' long history of innovation and government support points to a bright future for many industries

The vibrant Baltic TMT space continues to be a major driver of M&A in the region. The sector benefits from the region's pool of highly technically-skilled labour, strong education systems and government support for innovation, as well as the region's broader competitive advantages in its business environment.

TMT was the top sector for dealmaking in 2019/20 in both volume and value terms. It accounted for 20% of all transactions – up from 17% in 2017/18 – and 31% of total deal value, up from 9% in 2017/18. It contributed three of the six biggest Baltic deals in 2020, including the second and third largest, as well as three further top-14 deals.

All three of the biggest TMT deals involved Estonian targets, and each was targeted by inbound investors – two from the UK, and one from the US – evincing the Baltic TMT sector's global competitiveness. Tech companies with Baltic roots, such as Skype, TransferWise and Playtech, have become household names internationally, while leading global tech investors have been drawn to the region to develop products and services for markets worldwide.

The second most active sector in volume terms was industrials & chemicals, contributing 15% of deals (up slightly from 2017/18), followed by business services with 13% (down marginally from the preceding period). The sector benefits

from its integration into EU supply chains and the region's technical strengths, and may be a driver of future dealmaking if nearshoring and supply chain diversification gain pace in Europe in the wake of global trade wars and the disruption caused by COVID-19.

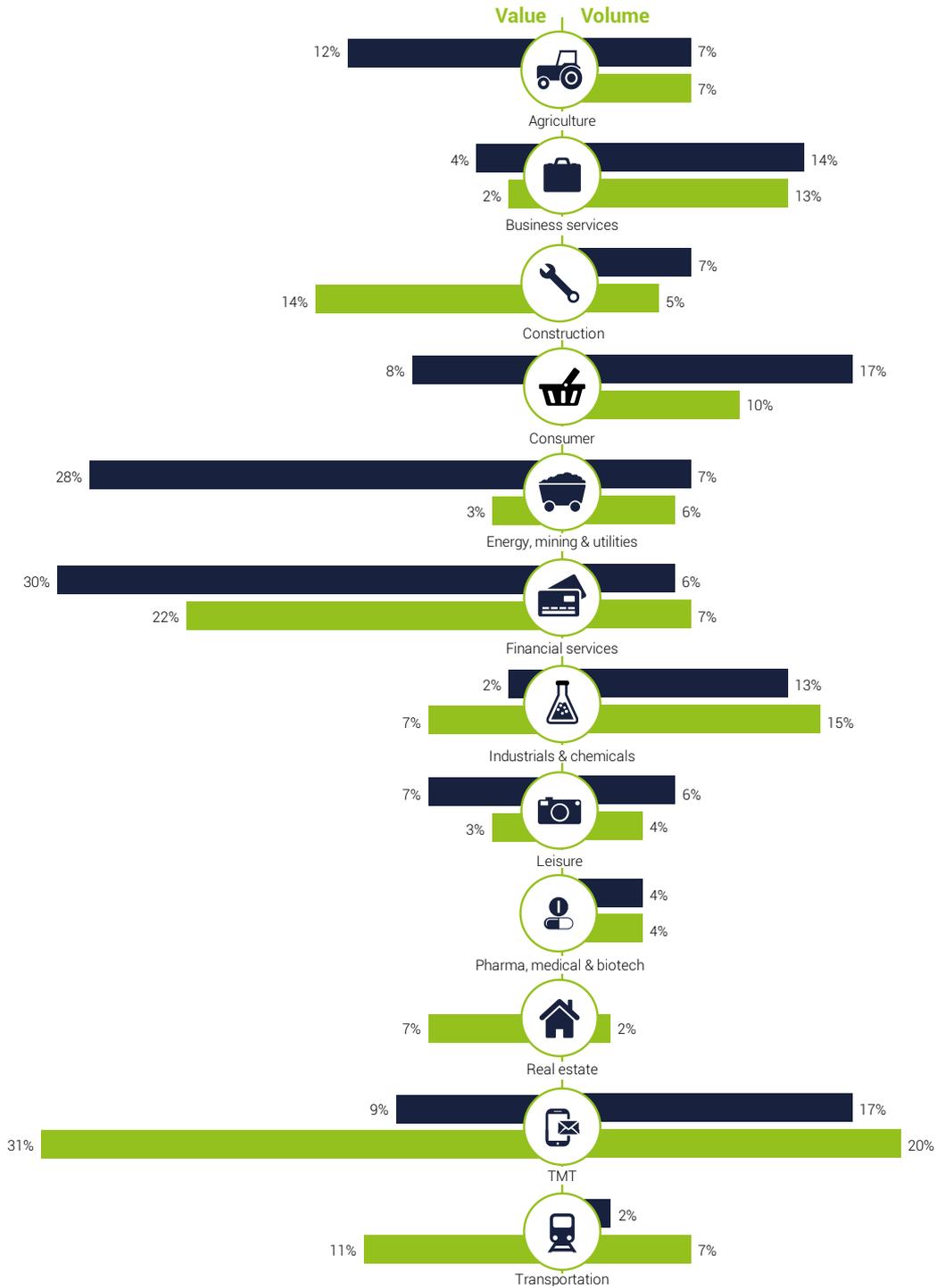
Financial services ranked second in terms of aggregate deal value, accounting for 22% of the total in 2019/20, down from 30% in 2017/18. Overall value has been boosted by a number of big deals, including the sale of Danske Bank's three Baltic subsidiaries, and the sector has been of increasing interest to international investors.

In 2018, US-based PE firm Blackstone made waves with its \$1bn acquisition of a majority stake in Baltic bank Luminor. The deal was one of the biggest transactions on record in the region, and the largest PE majority-stake investment in a universal bank anywhere in the world since 2008. In 2020, landmark financial services transactions included Siauliu Bankas's acquisition of Dankse Bank's Lithuanian branch retail loan portfolio for €108m (the fifth-biggest deal of the year).

The transportation sector saw the strongest rise in deal volume in 2019/20, with 7% of the total, up from just 2% in 2017/18. Improving regional connectivity has driven dealmaking in the industry, which also saw the biggest deal of 2020, the Latvian government's capital injection into airBaltic.

Baltic M&A volume and value by sector

■ 2017-2018 ■ 2019-2020





In value terms, the construction sector enjoyed the second most growth (after TMT), contributing 14% of the total in 2019/20, up from a negligible 0.2% in 2017/18. Commercial real estate has been an especially active area, reflecting the growth of domestic companies and the arrival or expansion of foreign investors. Infrastructure projects are also an important driver, featuring efforts to strengthen intra-Baltic transport networks and enhance energy production and security. The sector is experiencing a squeeze due to the pandemic-induced recession, but this may presage more distressed activity in 2021. While construction didn't contribute any top-10 deals in 2020, big-ticket projects offer the prospect of larger transactions in the coming years.

The consumer sector saw the largest decline in volume terms, from 17% of deals in 2017/18 (ranking as the equal-first industry overall) to 10% in 2019/20. This, in all likelihood, is attributable to the dent in consumer spending and confidence caused by the pandemic and related lockdowns, which have seen parts of the retail sector shuttered.

Despite lockdowns, the leisure segment did see some notable deals, including the acquisition of Lithuania's largest low-cost sports club chain Gym Plus by Estonia's MyFitness, an example of regional consolidation. Other major leisure-sector deals included two top-13 transactions, specifically Lithuanian real estate investor DG21's €12m purchase of domestic entertainment group Seven Entertainment, and Estonian investment holding UP Invest's acquisition of Baltic cinema operator Forum for €65m.

2020 also saw the region's biggest-ever IPO, as Lithuanian national energy company Ignitis Grupe was listed on the Nasdaq Baltic exchange and the London Stock Exchange, raising €450m. One-third of the new investors were institutions from the UK, while the European Bank for Reconstruction and Development became the largest minority shareholder. The success of the offering intimates clearly the investor appetite for Baltic companies, and the long-term potential seen in the utilities and infrastructure space in particular.



TMT

It might come as little surprise to those with passing familiarity with business in the Baltics that TMT has taken the lead in driving dealmaking in recent years. The success of Estonia-rooted Skype in particular has brought considerable media attention to the region, and its tech strengths are no secret. The region has become known not only as a source of leading international tech players, but a place where international tech companies can come and grow, capitalising on the same competitive advantages.

The second- and sixth-largest deals of the year overall both involved Bolt Technology, the Estonian ride-hailing company. In the larger transaction, Bolt raised €150m in a financing round led by US-based PE firm D1 Capital Partners. In the other, the company secured a €100m investment from UK-based Naya Capital Management. Bolt, which serves 30m customers in 35 countries, has become an international name in ride-hailing, competing with Uber and others, and will use the funding to expand services including micromobility and food delivery in Europe and Africa.

Land of unicorns

"We've seen some really high-profile unicorn exits. If you look at the industry, there are thousands of people with excellent IT knowledge who have experience that can help grow your business into a global technology player."

Risto Vahimets, partner, Ellex in Estonia



The third-largest deal of 2020 saw Nasdaq-listed GAN Limited take over Vincent Group, an Estonia-based company that operates an online gaming platform under the brand name Coolbet. GAN is a UK-based business-to-business supplier of internet gaming SaaS solutions focused largely on the US land-based casino market. Vincent Group, meanwhile, is a business-to-consumer gaming operator with around 175 employees, mostly based in Tallinn, offering real-money gaming in casino, poker, sports and e-sports. The deal will allow GAN

to integrate Coolbet's proprietary sports betting technology into its offering and capitalise on expected changes in US gambling legislation.

Three other major transactions – specifically the eleventh, twelfth and fourteenth largest overall – were also in TMT. In May, telecoms company UAB Bite Lietuva announced a deal to acquire the internet service operations of state-owned broadcaster Telecentras in a €20m deal. The broadcaster had been developing the business it sold under the brand name Mezon. And in June, Estonia-based mobile payments provider Fortumo was acquired by London-listed Boku, another mobile payments platform, for €35m. The sellers included Intel Capital and Greycroft Partners, two venture capital funds that invested in Fortumo in 2013 as strategic investors.

Another significant TMT deal for the region, not included in the Mergermarket figures as it entailed entities outside the region, was the sale of Sweden-based Telia Company's data carrier business – including assets in Estonia, Latvia, and Lithuania – to Polhem Infra. Telia Carrier operates one of the world's most extensive 'fibre backbones' and the acquisition thereof will give Polhem Infra a fibre network exceeding 74,000km with 320 connection points globally. Polhem Infra is a Swedish infrastructure asset investor and manager, and described the acquisition as a "long-term investment in digital infrastructure".

TMT is set to be a major driver of M&A in the Baltics for the foreseeable future. The success of a wide range of tech businesses in the region is creating a snowball effect, drawing in money from investors in more traditional sectors. Meanwhile, continued growth of incumbents and lucrative exits have left the older generation of tech founders with capital to invest in the next wave of start-ups.

Startups-friendly region

"Lithuania and the other Baltic States are among the leaders in the recent Index Ventures Option Plan rating. The main reason for is the recent changes in the legal and tax environment, which will empower tech companies to grow, attract investments from VC firms, and result in more large scale tech M&A transactions."

Rūta Armonė, associate partner, Ellex in Lithuania



Burgeoning administrative burden

"Overregulation and capital requirements are becoming a great challenge for Estonian fintech companies, credit institutions and investment companies. The administrative burden is growing every day, and this is starting to affect the everyday operations and business opportunities in the financial sector."

Gerli Kivisoo, partner, Ellex in Estonia



Regulation

The three Baltic states generally are seen as having a regulatory environment conducive to investment: secure and reliable, backed by robust and fair judicial systems, and not excessively burdensome on business. All rank in the top 20 in the World Bank's "Doing Business 2020" report, ahead of countries such as Germany, Finland and France.

The region benefits from its strong independent institutions, open representative democracies and authorities that are keen to engage with industry and address its needs. Government institutions and investment agencies have played a leading role in supporting the tech ecosystem in particular, albeit that some segments of the economy are subject to more onerous degrees of oversight.

All three Baltic countries have also taken measures to ensure that banking and money-laundering rules are tighter in the wake of scandals at Danske Bank and Swedbank that involved their Baltic subsidiaries. The Baltic countries came under particular scrutiny for money-laundering from Russia and other sanctioned jurisdictions, with pressure to tighten anti-money-laundering legislation coming from the EU and US.

Latvia in particular has earned plaudits internationally for its efforts to address the issues highlighted by these high-profile cases. The government that came to power after the 2018 election made tackling money-laundering a priority. In January 2020, Moneyval, the Council of Europe's AML and terrorist financing watchdog, upgraded its ratings for Latvia in 11 of its 40 "recommendation" categories. This followed a report in 2018 that identified a range of weaknesses in the country's AML regulations. Latvia is now "compliant" on 7 of the 40 categories and "largely compliant" on 33 of them.

A paragon of transparency

"We're a bit of a poster child for this new financial world, in being as transparent as possible. The new legislation and frameworks try to find the right combination of balance of regulation that isn't so strict that it restricts business activity overly. So I think in a sense in Latvia and the Baltics we're in a good place coming out of the COVID-19 crisis."



Raimonds Slaidiņš, senior partner, Ellex in Latvia

Nonetheless, legislative changes have created some challenges for business, particularly as new measures are bedded in. Company directors, lawyers and company registration authorities alike have had to familiarise themselves with new rules and methodologies on proving ultimate beneficial ownership and shareholders.

Latvia's banks have also become significantly stricter in the requirements needed to open accounts, due to caution over possible sanctions. This has created some frustrations for businesses and new investors to the country in particular, though on balance the particular scrutiny to which Latvia has been subjected means that it is now recovering from the money-laundering scandals more quickly.

The regulation and overall health of the financial sector has been improved since the global financial crisis, which brought weaknesses of oversight into focus across the world. This was followed by a wave of new rules including capital adequacy and reporting transparency requirements, while financial supervisory powers were significantly increased internationally.

BALTIC OUTLOOK 2021

Looking towards the decade to come, few regions deserve to be as confident of their prospects as the Baltics

Having weathered the unprecedented shocks of 2020 well, the Baltic M&A market is in a strong position to enjoy a resurgence in 2021 and beyond. GDP growth is expected to reach at least 3% in all three countries in 2021 as momentum returns to the global economy.

The resilience of dealmaking in the region reflects the fact that the Baltic countries are a sweet spot for investors, offering the stability and regulatory consistency of the most developed markets in Europe, while often delivering returns more familiar in CEE's emerging markets. The countries have GDP per capita that exceeds some long-time EU members, but also possess considerable scope for growth.

The region's governments have also demonstrated their capacity for decisive and transparent policy-making during the pandemic, moving quickly to support business and reassure markets. This is coupled with their track record of supporting the creation of some of the world's strongest business environments, with a particular emphasis on tech.

At the start of 2021, the TMT sector looks set for another busy year. Of the 30 "for sale" stories tracked by Mergermarket in the second half of 2020, more than one-third (11) involved TMT companies. Industrials & chemicals, pharma, medical, and biotech and business services ranked joint second, with four stories apiece. The PMB industry in particular has been thrown into the spotlight by the pandemic, and is an area in which the Baltic countries can leverage their advantages in education, research and development, government

Baltics heat chart

Sector	Volume
TMT	11
Industrials & chemicals	4
Pharma, medical & biotech	4
Business services	4
Consumer	3
Financial services	3
Energy, mining & utilities	1

Companies for sale stories tracked by Mergermarket
01/07/2020 to 05/01/2021

Making the most of dry-powder mountains

"Private equity funds have accumulated a lot of dry powder; a lot of cash is still in play. In 2021, when there is more certainty and vaccination programmes accelerate, it is likely that we will see even more M&A activity and standout deals."

*Paulius Gruodis, partner,
Ellex in Lithuania*





support and the regulatory and market access benefits of EU membership.

After a slower year, PE activity is expected to pick up in 2021. The Baltics have attracted increasing attention from global PE, with Blackstone's acquisition of Luminor a stand-out deal in recent years. Regional funds such as BaltCap and Livonia Partners have also become major drivers of M&A.

Investors will be well aware of downside risks. With many European countries tightening lockdowns in early 2021, it is clear that COVID-19 is likely to have an impact well into 2021. The revival of major M&A activity may only commence in earnest in the second half of the year, with some green shoots showing through the first six months.

The full economic impact of the crisis is still hard to gauge, and further uncertainties loom over the medium-term outlook, including the direction of inflation following a period of historically loose fiscal and monetary policy. All three Baltic countries are members of the euro area, the fissures in which have not been eliminated; the generally fiscally-conservative Baltic governments will want a say in upcoming debates over centralisation.

Nonetheless, few parts of the world can be as confident of their prospects in the new decade.

Baltic forecasts are undoubtedly bright

"We have a very vibrant M&A scene in the Baltics. Vibrant IT, vibrant start-ups, a very active PE sector. I think that all augurs well for the next few years."

Raimonds Slaidiņš, senior partner, Ellex in Latvia



New M&A record decade to come in the Baltics

"I am very bullish about the Baltic M&A market in the coming years. Already we can see many landmark deals being prepared and potentially signed in 2021. There will be several major deals in different industries, including TMT and fintech, energy and other COVID 19-proof sectors such as the sale and distribution of medical equipment. It is evident that both local and international PE players are increasingly active in the region. The sellers' market in the Baltics will continue at least through this year, and I wouldn't be surprised if 2021 wound up being a record-setting M&A year for the region."

Ermo Kosk, partner, Ellex in Estonia



ABOUT ELLEX

Ellex brings together the region's three strongest and most highly ranked law firms from each of the Baltic states:

**Ellex[®]
Raidla**

Estonia

**Ellex[®]
Klavins**

Latvia

**Ellex[®]
Valiunas**

Lithuania



Market position

- The largest law firm and market leader in the Baltics with almost 300 employees, including 42 partners and almost 200 associates, counsels and lawyers.
- The largest and the most recognised Corporate and M&A team in the Baltics with 16 partners and 40 lawyers.
- Baltic M&A Legal Advisor of the Year by Mergermarket, 2020.
- No.1 strategic speaking partner in the Baltics by Kantar Sifo 'Tier 1 Law Firm Review' 2020.
- The leading international transaction practice in the Baltics: No. 1 by deal count in Eastern Europe, Refinitiv 2020.
- Top Tier1 rankings in Corporate and M&A by Legal 500 and IFLR 1000.

Top news

- At the end of 2020, Ellex received the prestigious Baltic Law Firm of the Year Award by The Lawyer European Awards.
- Who's Who Legal awarded Ellex as Law Firm of the Year 2020 in the Baltics.
- During 2020, two partners joined the Ellex partners team in the Baltics: prof. habil. dr. Valentinas Mikelėnas (Lithuania) and Marko Kairjak, PhD, LL.M. (Estonia).
- In January 2021, three partners joined Ellex in the Baltics partners team: Martin Mäesalu, Head of Competition and State Aid practice in Estonia, Giedrė Aukštuolienė, co-head of Dispute Resolution practice in Lithuania and dr. Olga Petroševičienė, co-head of Real Estate and Environment practice in Lithuania.
- In 2021, Rūta Armonė, an associate partner, was promoted to co-head of Corporate and Commercial practice at Ellex in Lithuania.

ESTONIA

Roosikrantsi 2, EE-10119 Tallinn, Estonia
contact@ellex.ee
+372 640 7170

LATVIA

K.Valdemara 62, LV-1013 Riga, Latvia
contact@ellex.lv
+371 6781 4848

LITHUANIA

Jogailos 9, LT-01116 Vilnius, Lithuania
contact@ellex.lt
+370 5268 1888

ABOUT ELLEX M&A TEAM

Ellex's M&A team is unparalleled on the Baltic market in terms of number of top experts, annual deal count and loyal clients, as well as public recognition and outstanding reputation.

The team offers technical excellence, regional as well as global reach, industry knowledge and the full range of legal capabilities necessary to achieve success in your transactions, on time and efficiently. We are consistently ranked among the top law firms in the dimension for M&A, based on the value and number of deals on which we have advised.

Further information www.ellexcircle.com

Contact

Estonia



Sven Papp

Partner, Corporate and M&A
sven.papp@ellex.ee
+372 515 5963



Risto Vahimets

Partner, Corporate and M&A
risto.vahimets@ellex.ee
+372 5150 949



Gerli Kivisoo

Partner, Corporate and M&A
gerli.kivisoo@ellex.ee
+372 525 9774



Ermo Kosk

Partner, Corporate and M&A
ermo.kosk@ellex.ee
+372 5225 761

Latvia



Raimonds Slaidins

Co-founder and Senior
Partner, Corporate and M&A
raimonds.slaidins@ellex.lv
+371 6781 4848



Zinta Jansons

Foreign counsel,
Admitted to practice in New
York and New Jersey, USA
zinta.jansons@ellex.lv
+371 678 14848

Lithuania



Paulius Gruodis

Partner, Corporate and M&A
paulius.gruodis@ellex.lt
+370 5268 1888



Rūta Armonė

Associate Partner,
Corporate and M&A
ruta.armone@ellex.lt
+370 640 41313



Zilvinas Zinkevicius

Partner, Corporate and M&A
zilvinas.zinkevicius@ellex.lt
+370 698 32504



Robertas Ciocys

Partner, Corporate and M&A
robertas.ciocys@ellex.lt
+370 683 33413



Rolandas Valiunas

Managing Partner,
Corporate and M&A
rolandas.valiunas@ellex.lt
+370 687 85700

ABOUT MERGERMARKET



Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.



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For more information, please contact:

Simon Elliott
EMEA Managing Director, Acuris Studios
Tel: +44 20 3741 1060





www.acuris.com

10 Queen Street Place
London
EC4R 1BE
United Kingdom

t: +44 (0)20 7059 6100
f: +44 (0)20 7059 6101

1501 Broadway
8th Floor
New York, NY
10036

t: +1 212.686.5606
f: +1 212.686.2664

Suite 1602-06
Grand Millennium Plaza
181 Queen's Road, Central
Hong Kong

t: +852 2158 9700
f: +852 2158 9701

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