Ellex

BALTIC M&A MONITOR 2016

MERGERMARKET

CONTENTS

FOREWORD

Welcome to the 2016 edition of the Baltic M&A Monitor, a comprehensive review of M&A activity in the Baltic region published by Ellex in association with Mergermarket. This report provides detailed insights into deal flow in the three Baltic countries – Estonia, Latvia and Lithuania – including country and sector-specific trends, and forecasts for the year ahead.

General euro area volatility, Russia's slide into recession and continuing tension in the Ukraine have temporarily cast a shadow over investor sentiment. The result was a slowdown in Baltic M&A, with deal volume dipping 19% to 48 announced deals in 2015, and disclosed deal value down 46% to €558m. Despite suffering the effect of global trends, Baltic economies performed well and exceeded the European Commission's GDP growth forecast for the euro area as a whole. Baltic businesses affected by the Russian sanctions remain resilient and domestic consumption – supported by low oil prices and steady growth forecasts – indicate fundamental economic health. At the same time, the Baltic states' domestic political stability and strong integration with the Nordic countries adds additional opportunities for regional growth through M&A.

Deal volume across the Baltics is well within the average for the region, suggesting that the appetite for quality targets remains undimmed. And while overall value was down, the year's top three transactions – all Latvian targets above the €100m mark – totalled €410m, indicating that the region does indeed generate larger-sized opportunities.

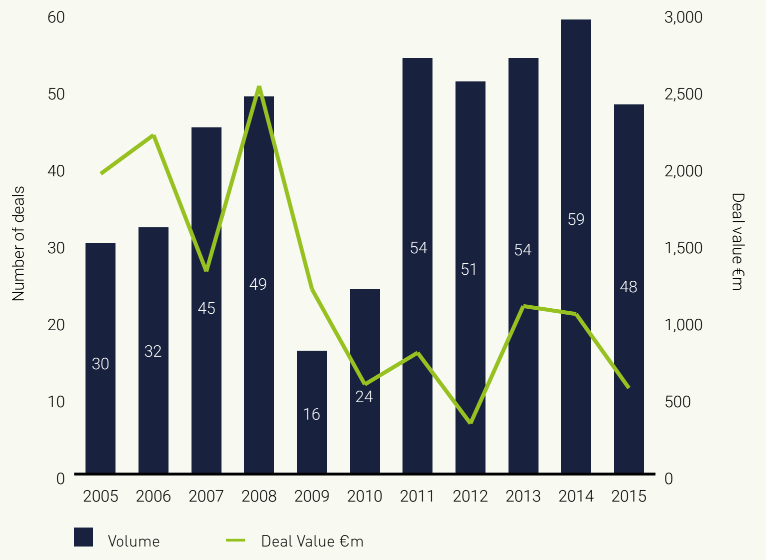
Energy, mining and utilities, financial services, industrial & chemicals, and TMT have come to dominate the market over the past two years. These sectors accounted for 64% of total M&A volume in 2014-15 (up from 40% in 2011-13) and 69% of value (61% in the period 2011-13).

Lithuania, the largest economy of the three Baltic states, joined the euro currency area at the beginning of 2015, bringing it in line with neighbouring Latvia (which joined in 2014) and Estonia (2011). The benefits of euro adoption – described as "tangible" by the Bank of Lithuania's chairman, Vitas Vasiliauskas – include improved competitiveness in the banking segment, lower transaction costs and higher levels of confidence. In previous years, admission to the euro area had a generally positive effect on M&A in Estonia and Latvia.

Domestic and overseas private equity (PE) interest in the Baltic countries in 2015 also remained solid, targeting a variety of sectors, in particular TMT and consumer. Meanwhile, the energy sector yielded a positive exit environment for PE-owned renewable energy assets to strategic buyers or corporates, who are better suited to continue successful generation in a favourable subsidy environment.

As M&A is experiencing a global high and easy financing is enabling cash-rich corporates to expand geographically through acquisition, the Baltics remain a solid investment destination with wide regional distribution channels across all three countries and the Nordics.

Baltic M&A, 2005-2015



M&A OVERVIEW

While M&A in the Baltics has not mirrored the general upwards trend around the world, this has been down to political issues rather than a lack of quality assets

It has been a stellar year for global M&A with announced transactions totalling a record-breaking €3.9 trillion, a 56% increase year-on-year from 2014. The jump was due to the number of megadeals, amid stable transaction volume of 17,485 deals.

However, M&A activity across the Baltics – Estonia, Latvia and Lithuania – followed a different trajectory. Performance was lacklustre by global standards with concerns about euro area volatility, sanctions and the downturn in Russia continuing to weigh on sentiment. Confronted by economic and political headwinds, Baltic M&A slowed in 2015 with deal volume 19% lower than in 2014 and disclosed deal value almost halving by 46% to €558m.

Moving targets

In terms of target geographies, 2015 saw a major shift in emphasis on previous years. Lithuanian targets accounted for just 19% of overall value across the Baltics, down from 69% in 2014 and 81% in 2013, while Estonian targets represented only 5% of all transaction value in the region.

Latvia dominated the field with the greatest share of value – 76% – up from 21% in 2014 and 8% in 2013. The Latvian value spike of 2015 reflects the impact of three major transactions. These were the acquisition of a 43.25% stake in Ventspils Nafta, a Latvian oil storage and transportation company, by Switzerland-based trading company Euromin for €199m, the purchase of distressed Latvian steelmaker KVV Liepajas metalurgs JSC by Ukraine's KVV Group for €107m and the acquisition of Latgran, a Latvian wood pellet producer, by Estonian peer Graanul Invest for €104m.

While the distribution of value across the Baltics was skewed by large deals in Latvia, deal flow across the region was spread more evenly. Lithuania's share of Baltic total volume was 44% in 2015, a slight increase on 2014. Latvia garnered 30% of deals, up five percentage points on a year earlier, while Estonia accounted for 26% of the overall volume of transactions.

Sector trends

Energy, mining and utilities (EMU); financial services (FS); technology, media and telecommunications (TMT); and the industrial and chemicals sectors are all on an upward trend and have played a decisive part in driving the market over the past two years. These sectors accounted for 64% of total M&A volume in 2014-15 (up from 40% in 2011-13) and 69% of value (60% in the period 2011-13).

One very recent example is the sale by German utility E.ON of a majority of its stake in AS Latvijas Gaze, a Latvian publicly-listed joint stock company with exclusive rights in Latvia for the storage, transmission, distribution and trading of natural gas. The target is the incumbent gas utility in Latvia, established during the Soviet era and later privatised by the Latvian government, initially through share sales to E.ON and Russian gas company Gazprom. The buyer SPV is owned by a specialised investment fund with a focus on capital-intensive investments in energy and transport infrastructure projects, backed by six major European financial institutions, as well as the European Commission. The respective share purchase agreement was executed in December 2015, and completion of the transaction occurred in January 2016.

The sale of Latvia's Liepajas metalurgs JSC steelworks, the largest in the Baltics, to Ukrainian scrap metal business KVV Group in a deal worth €107m, featured prominently among distressed deals.

If Liepajas metalurgs symbolises the traditional face of Baltic industry (it opened for business in the late 19th century) then the next biggest industrial deal of 2015 underlines the opportunities of the 21st century, with the European Bank for Reconstruction and Development (EBRD) taking a 30.51% stake in Eco Baltia JSC – a leading provider of waste treatment in Latvia and elsewhere in the Baltics. The EBRD's €10m investment will help the firm finance a treatment plant for household waste. As well as acknowledging the upside potential of the waste and recycling sector, the deal underlines the EBRD's increasing focus on promising SMEs.

Other major industrial and chemicals transactions demonstrate promising growth across the region for manufacturers of consumer goods. For example, Austria-based investment advisory firm Accession Mezzanine Capital acquired a minority stake in Lithuania-based refrigeration specialists UAB Freor LT for €7m. Meanwhile, Lithuania's Kosmetikos Laboratorija bought a 42.5% stake in BIOK Laboratorija, a company engaged in manufacturing cosmetics and personal care products, in a deal estimated to be worth a minimum of €6.3m.

The volume of EMU transactions also rose, accounting for 16% of regional volume in 2014-15, up from 8% in 2011-13. Energy continues to be a hot topic with the Baltic states working to reduce reliance on Russian electricity and gas through exiting the Russia-linked power ring BRELL and aligning further with the Nordics and Europe. As the Baltic countries diversify their energy mix, there is ample scope for renewables – not least windpower, and biofuels such as waste heat and wood pellets. Underlining this trend was the purchase of Latvia-based but Swedish-owned pellet producer SIA Latgran by Estonia's AS Graanul Invest for €104m – the third biggest transaction of 2015.

Many multi-jurisdictional transactions affecting the Baltics also took place in 2015. For example, Sweden-based EQT Infrastructure sold Adven Group, an energy infrastructure and services provider with operations in Finland, Sweden and Estonia, to a consortium comprising of Australian PE firm AMP Capital Investors and UK-based Infracapital Partners II.

Continuing consolidation among European financial services companies due to strict capital requirements under Basel II helped to lift volumes in the FS sector to 13% of overall M&A volume in 2014-15, up from 8% in 2011-13. The sector's largest deal in 2015, the acquisition by Norwegian insurer Gjensidige Forsikring ASA of a 99.88% stake in Lithuanian insurer PZU Lietuva, from Polish Powszechny Zaklad Ubezpieczen for €66m, is also evidence of the Baltic's strong ties with the Nordic financial services sector and the inherent growth

"The Baltic countries are more integrated into the Nordic market than they are with Central and Eastern Europe."

Dovile Burgiene, Head of the Corporate and M&A practice group, Ellex Lithuania

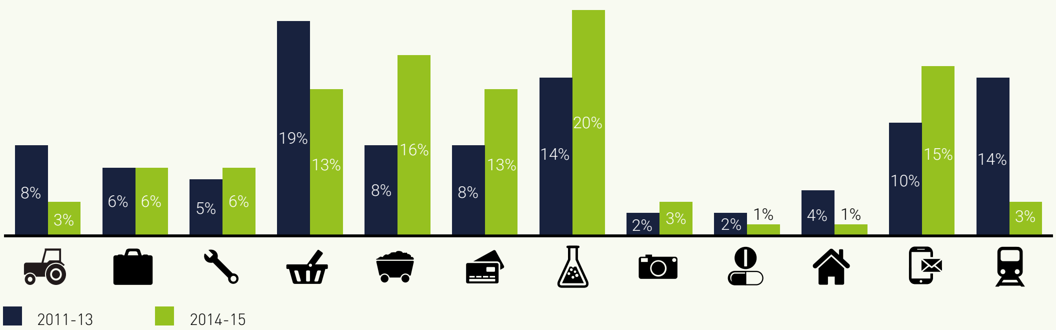
potential across both regions. Further examples are the purchase of the Latvian insurer Baltikum by the Vienna Insurance Group, and Danske Bank's sale of its personal customer business to Swedbank in Latvia and Lithuania. The latter transaction is awaiting competition clearance and is expected to be completed in Q1 2016. The banking sector also continued to consolidate domestically with Lithuanian bank Siauliu Bankas' acquisition of commercial Bankas Finasta and brokerage company Finasta FMI from Invalda INVL.

The TMT sector also saw rising activity, with deals representing 15% of transaction volume in 2014-15, up from 10% in 2011-13. As elsewhere in Europe, convergence continues to stimulate activity. The year ended with Swedish telecom operator TeliaSonera combining its Baltic operators through acquisition of its Lithuanian mobile operator Omnitel by its partly-owned fixed telephony business TEO LT, and proposing to combine Latvian mobile operator LMT and fixed telephony business Lattelecom. Meanwhile, the Baltic's renowned IT expertise continues to attract inbound investment – a point underlined by UK venture capital and PE firm Octopus Investments Ltd and the EBRD acquiring an undisclosed stake in Lithuania-based software developer Trafi for €6m.

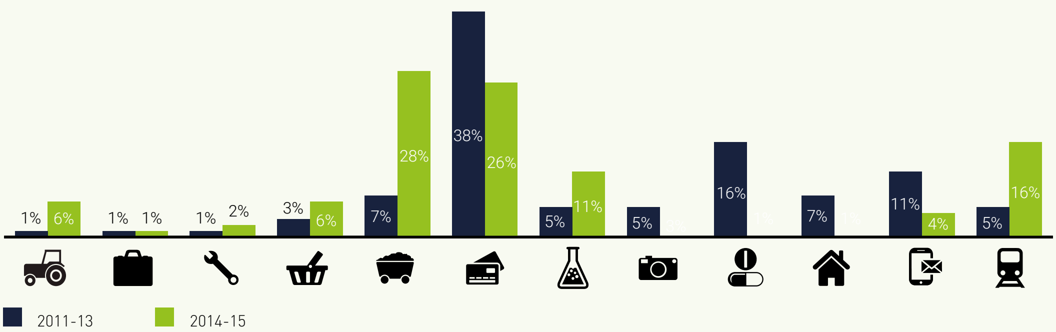
Home and away

An examination of inbound versus domestic deal flow shows that 2015 was a strong year for domestic transactions from the point of view of volume, with local players responsible for 56% of bids compared to 49% in 2014. The bulk of M&A value, however, stemmed from inbound deals (75%), the highest since 2011 (80%).

M&A Volume 2011- 2015, split by sector



M&A Value 2011- 2015, split by sector



Regional relationships are key, not only among the Baltic triumvirate of Estonia, Latvia and Lithuania, but also with the wider Nordic community – particularly Finland and Sweden. The Nordic neighbours remain active participants in the Baltic M&A market: 21% of inbound value, or €87m, came from the Nordics in 2015. "We are more integrated into the Nordic market than we are with Central and Eastern Europe," says Dovile Burgiene, Partner and Head of the Corporate and M&A practice group at Ellex Lithuania. Recent pan-Baltic deals include Lithuanian home furnishing business Senuku Prekybos Centras purchasing Finland-based Kesko Group's operations of home furnishings retailer K-rauta stores in Estonia and Latvia.

Private equity plays

In 2015, private equity (PE) firms benefitted from easily available finance and continued to invest in the stable economies of Europe.

Following the wave of state privatisation opportunities over the past few years, PE activity remained buoyant in the Baltics with 10 deals, up one from the previous year. However, disclosed deal value was limited to €11m, down from €152m in 2014. Nevertheless, regionally-focused PE funds such as BaltCap continued to invest in the region, amounting to nine buyouts, the highest number since 2011. "PE funds in the Baltics have successfully raised capital over the past few years and the market is anxious to see it vested," says Sven Papp, Partner and Head of the Corporate and M&A practice group at Ellex Estonia, expressing his optimism for increasing deal activity in 2016.

Telecoms is one sector where both local and overseas PE firms were particularly active with four deals. In the most prominent deal, US-based Providence Equity Partners in December announced its acquisition of Bite Group, the Lithuanian and Latvian mobile operator, from UK PE firm Mid Europa Partners for an undisclosed sum (but estimated to exceed €300m).

Nordic investors are enthusiastic about the Baltics, but attracting investment from further afield is more of a challenge. "For foreign PE, the targets generally aren't big enough," notes Raimonds Slaidins, Partner, Ellex Latvia. "They're looking for investment of $25 million or more, and those targets are a little bit few and far between."

Local capital is maturing rapidly, with asset managers, private equity houses, venture capital and real estate funds now an established part of the mix, stresses Burgiene. "We recently reviewed around 40 registered funds in each of the Baltic countries," she says. "There are about 20 fund managers in each of the Baltics and there are non-regulated funds on top of that, such as BaltCap which is the biggest."

One of the more recent entries in the Baltic market is Livonia Partners which announced its first close on a $70m fund in August 2015. This pan-Baltic private equity fund, domiciled in Latvia, includes investors from the Baltics, Nordics and Western Europe, the European Investment Fund and the EBRD. The fund plans to invest €3m-€15m of equity and mezzanine capital per investment in 8-12 companies active in the Baltics and adjacent regions.

Each of these funds has between five and ten targets in each country: "When this kind of PE is present, there will be a variety of deal types such as fund-to-fund deals and add-on deals – it's a continuous flow,"

Top Baltic deals 2015

Announced	Completed	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value €(m)
17/09/2015	17/09/2015	JSC Ventspils Nafta (43.25% Stake)	Transportation	Latvia	Euromin S.A.	Switzerland	JSC Latvijas Naftas tranzits	Latvia	199
06/02/2015	06/02/2015	KVV Liepajas metalurgs JSC	Industrial & Chemicals	Latvia	KVV Group	Ukraine			107
22/05/2015	01/07/2015	SIA Latgran	Energy, Mining and Utilities	Latvia	AS Graanul Invest	Estonia	BillerudKorsnas AB; Baltic Resources AB	Sweden	104
03/02/2015	30/09/2015	PZU Lietuva (99.88% Stake)	Financial Services	Lithuania	Gjensidige Forsikring ASA	Norway	Powszechny Zaklad Ubezpieczen SA	Poland	66
19/06/2015		AS EG Vorguteenus (37% Stake)	Energy, Mining and Utilities	Estonia	Elering AS	Estonia	Gazprom PJSC	Russia	20
24/08/2015	24/08/2015	Eco Baltia (30.51% Stake)	Industrial & Chemicals	Latvia	EBRD	UK			10
09/04/2015	09/04/2015	JSC Baltnetos komunikacijos	Business Services	Lithuania	UAB ATEA Baltic	Norway			10
12/05/2015		Finasta Bank; Finasta FMI AB	Financial Services	Lithuania	Siauliu Bankas AB	Lithuania	Invalda INVL	Lithuania	7
18/02/2015	18/02/2015	UAB Freor LT	Industrial & Chemicals	Lithuania	Accession Mezzanine Capital III L.P.	Austria			7
13/05/2015	13/05/2015	Trafi	TMT	Lithuania	The European Bank for Reconstruction and Development; Octopus Investments Limited	UK			6
04/02/2015	30/06/2015	JPD SIA	Construction	Latvia	ITAB Shop Concept AB	Sweden			6
23/01/2015	23/01/2015	BIOK Laboratorija UAB (42.5% Stake)	Industrial & Chemicals	Lithuania	Kosmetikos Laboratorija UAB	Lithuania	Egidijus Slanina (Private Investor)	Lithuania	6

notes Burgiene. "The challenge is having a small local market, which means that in order to have a good exit, portfolio companies have to either export or invest in the larger region to become attractive targets at the time of exit."

New markets

Russia's imposition of retaliatory sanctions on many food products imported from the European Union continued to weigh on the region's food processing sector throughout 2015. The EU's announcement in December that its own economic sanctions against Russia would be extended until 31 July 2016 suggests that there is little immediate prospect of restrictions being lifted.

While sanctions have had an impact on export-oriented businesses, observers note that there is nothing new about flare-ups with Russia – Moscow has long been accused of using sanitary inspections to restrict food imports. "It's been going on for years," points out Burgiene. And she says the impact of sanctions on Lithuanian segments such as dairy processing should not be exaggerated.

"Dairy processing businesses are very well run and diversified: when margins drop they turn to another market. They are small and flexible, so they have not really suffered and are definitely not distressed," she says.

However, local business had already begun to rearrange product portfolios and exports to alternative markets in light of tight competition and aggressive pricing in the sector, the pressure of which continues to squeeze margins also in alternative markets.

The problems for the dairy industry currently originate from the low milk prices rather than the disappearance of the Russian market, according to Sven Papp. "The Russian effect has been felt more indirectly. While redirecting their exports to European countries, Baltic producers have realised that European producers have also been forced to steer their efforts towards other markets and that has increased competition in Europe," Papp says.

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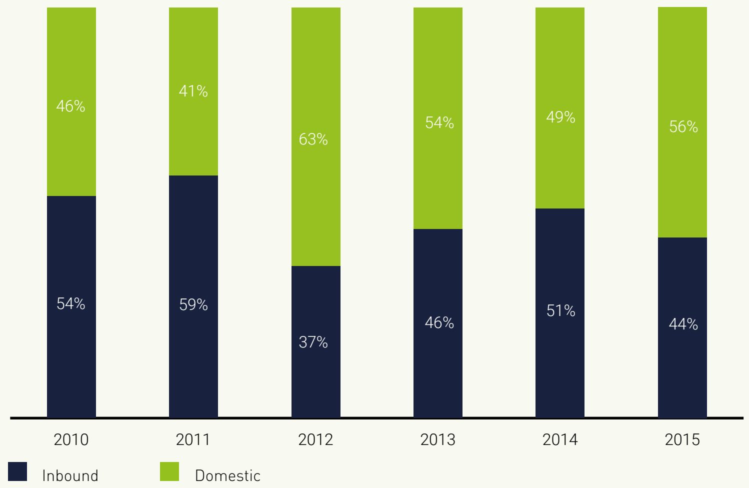
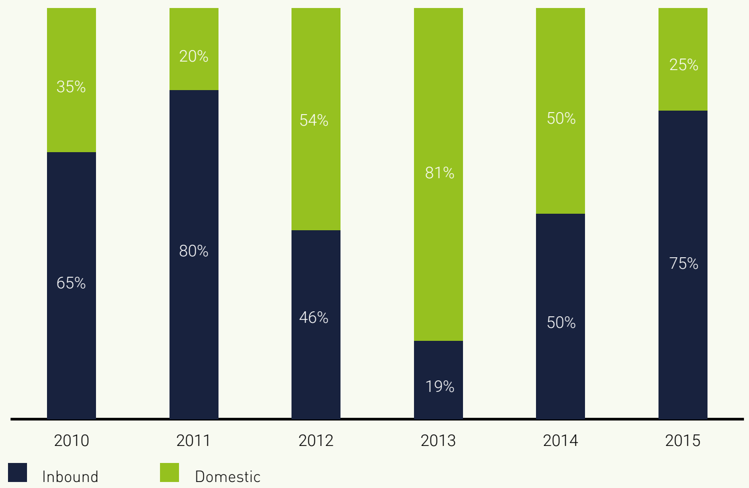
Sven Papp, Head of Corporate / M&A practice group, Ellex Estonia

M&A volume by bidder geography



M&A value by bidder geography



COUNTRY FOCUS

Latvia

Latvia was the target of the biggest three deals in 2015 with a combined value of €410m. Topping the list was Swiss-based metals trading company Euromin's acquisition of a 43.25% stake in JSC Ventspils Nafta, a company involved in the storage, transportation, reloading and shipping of crude oil and petroleum products, in a deal worth €199m. Also in the €100m-plus territory was the acquisition of Liepajas metalurgs JSC by Ukraine's KVV Group for €107m and the purchase of Latvia-based but Swedish-owned wood pellet producer SIA Latgran by Estonia's AS Graanul Invest for €104m.

Further change in the EMU sector is on the cards. The decision by Germany's biggest utility, E.ON, to restructure with a focus on renewables instead of fossil fuels has already had an impact in the region, with a divestment programme that has seen the energy giant selling off assets in Lithuania, Estonia and Finland. "E.ON has recently completed a deal with the EU-backed investment fund, Marguerite Fund, to sell a 28.97% share in the Latvian gas utility Latvijas Gaze," says Slaidins. "Concurrently with this transaction, substantive legislative changes in the energy sector requiring the unbundling of the natural gas market in Latvia are being decided on in the Latvian parliament that have had great impact on this deal, as well as the Latvian energy sector."

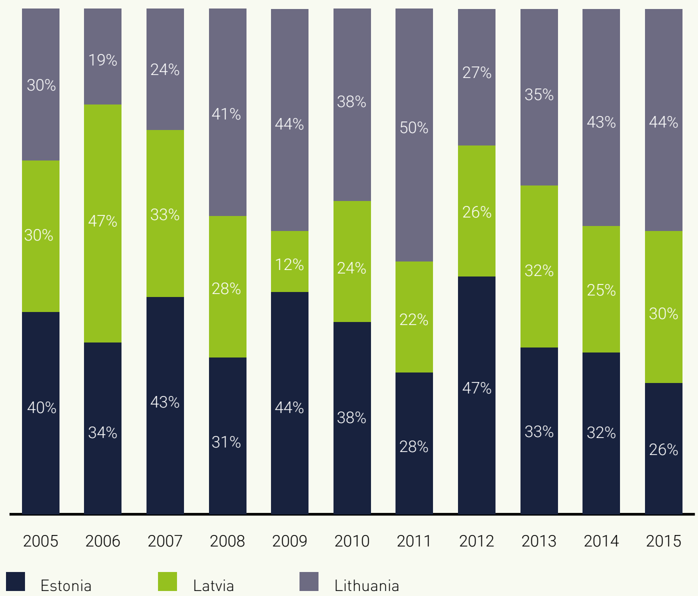
Further fallout from global consolidation in the insurance sector resulted in the acquisition by Austria-based Vienna Insurance Group (VIG) of a majority stake in Latvia's BTA Baltic Insurance. BTA Baltic Insurance is the second largest non-life insurer in both Latvia and Lithuania.

The move by VIG follows hot on the heels of its acquisition of Latvian non-life insurer Baltikums AAS, announced in July 2015. "The insurance sector in Latvia has been a very active sector for deals over the past couple of years, beginning with the sale by RSA of its companies in Latvia and Lithuania to PZU in 2014. There seems to be further room for consolidation which could continue to be a driver for transactional work in Latvia," says Slaidins.

There is also scope for consolidation across Latvia's struggling dairy industry. The combination of plunging milk prices and the Russian embargo has piled the pressure on Latvia's dairy companies. The sector's competitive position is further weakened by fragmentation – there are some 50 milk processing plants in Latvia, many operating below capacity. "Milk-producing companies have started to become consolidated over the past one to two years," notes Slaidins. PE activity in the sector in 2015 included CIS-region focused Meridian Capital's acquisition of Rīgas Piensaimnieks, one of Latvia's largest dairy producers, from US-based PE firm Darby Overseas Investments.

Interest from overseas private equity firms was also directed at the European real estate market. US private equity firms Blackstone for example made several acquisitions, including a deal with Norwegian Obligo Investment Manager for a property portfolio spread across the Nordics, Germany and Latvia, valued at €2.5m.

Baltic deal volume by country, %



Lithuania

Lithuania had the highest volume of deals in 2015 – this is in keeping with the trend for the past two years. Consolidation in many sectors including financial services, industrial and chemicals and TMT, was the main deal driver.

Consolidation moves among telecoms and mobile operators in 2015 saw Sweden's TeliaSonera combining its two Lithuanian subsidiaries – fixed-line operator Teo and mobile operator Omnitel – to create a fully-converged operator. The deal will see Teo acquire Omintel for €220m. Similarly, Lithuanian cable telecom carrier and TV broadcaster CGates, owned by Estonian cable TV Starman, acquired Lithuanian telecom provider KAVA Communications in a bid to expand regional market share.

Lithuania is also well placed to benefit from growth in the business services sector. The country has the highest proportion of mathematics, science and technology graduates in the EU and near 100% proficiency in English among young professionals.

As a result, Lithuania is benefiting from "near-shoring" – the trend towards outsourcing business or IT processes to third parties in countries which are nearby, rather than halfway round the world. "We have a great number of workplaces that are being transferred from places like London and Scandinavia to Vilnius and other cities in the Baltics," says Burgiene.

Young and dynamic professionals also fuel a very active start-up community with companies such as Vinted (which attracted more than €50m in three rounds of investments), Trafi and Pixelmator.

Meanwhile, the energy sector continues to see new developments that drive deals and bring Lithuania in line with the EU's Third Energy Package – including requirements to separate gas transmission, distribution and supply functions.

Now, renewables increasingly play a part in Lithuania's energy future. The country is well positioned to produce biofuels – energy from plants or waste. It also has enormous areas of unused or abandoned land, between 1,700 and 2,800 square kilometres by some estimates, that could be used for growing biofuel crops. One of the drivers for this is the push towards using biofuels instead of gas for district heating schemes which is mandated by the EU and backed by Lithuanian legislation. Heating and cooling from renewable energy sources further benefits from subsidies and pollution tax reliefs.

"One area to watch is combined heat and power generation," says Burgiene. "Lithuania's two largest cities have outdated generation infrastructure, and in Vilnius the state-owned utility is tendering to build a new facility. But there are also smaller, niche local players in this market, usually with biofuels, mostly in the municipal heating sector, and in wind."

Agriculture also continues to generate opportunities for PE. "There have been quite a lot of equity and mezzanine type investments in agricultural land. Farmers benefit from the capital they can raise by disposing of their land, sometimes with a buy-back option, sometimes without. We have both local and international financial investors doing these deals – it's quite active," adds Burgiene.

Although agricultural deal volumes have fallen in recent years – they accounted for just 3% of Baltic deal volume in 2014-15 – values have ticked up with agricultural transactions accounting for 6% of overall value over the last two years, up from just 1% in 2011-13.

Renewables increasingly play a part in Lithuania's energy future. The country is well positioned to produce biofuels – energy from plants or waste. It also has enormous areas of unused or abandoned land that could be used for growing biofuel crops.

Estonia

Estonia saw muted deal activity for bigger deals in 2015, with value lower than previous years, but there were still a variety of interesting transactions with smaller sized deals.

The EMU sector witnessed further dismantling of Gazprom in the Baltics, with electricity transmission services operator Elering AS bumping up its stake in gas transmission operator EG Vorguteenus to 89% with a €20m acquisition of a 37% stake from Russia's Gazprom.

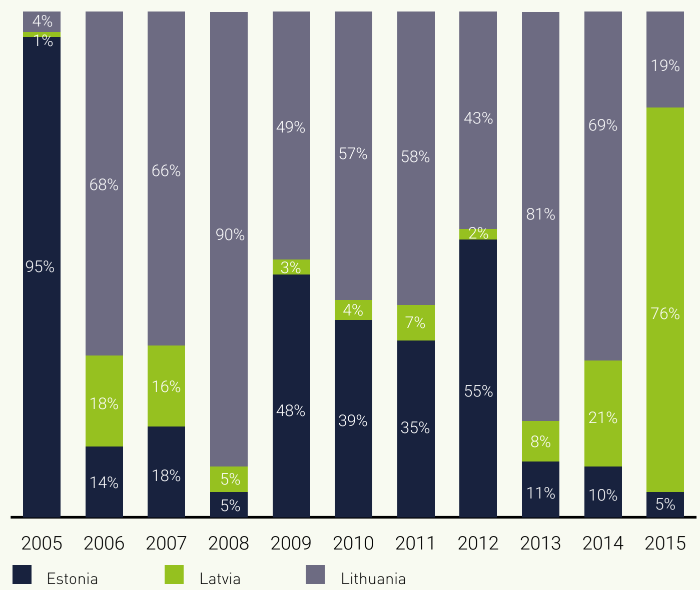
Estonia was ahead of the other Baltic states in terms of strong PE interest in 2015. "Private equity is driving activity in the market at the moment," says Sven Papp, Partner and Head of Corporate/M&A practice group at Ellex Estonia. "It's true with respect to the whole region and it's definitely true in regard to Estonia."

PE exits from renewable energy projects stimulated EMU deals with strategic investors stepping in to take over the long-term operation of assets, according to Papp. "A number of the players in this sector have set up their businesses with a clear exit vision – that is triggering deals in this sector," says Papp. In January 2016, BaltCap exited its investment in Estonia's Tuuleenergia, operator of a producing 18MW wind park, and Lithuania's Eurakras 24MW wind farms. Both wind farms were acquired by Lietuvos energija, Lithuania's state-controlled energy holding company, for a combined value of €28m. The Estonian wind farm will benefit from favourable renewable energy tariffs and garner a subsidy premium for the next decade.

Another interesting Baltic-Polish deal including Estonia was BaltCap's acquisition of property manager BPT Real Estate from a Nordic fund manager Northern Horizon Capital. The deal reflects the growing demand for independent property management and real estate advisory services in the region. With institutional investors playing an increasingly important part in the region's real estate market, demand for services of the sort provided by BPT Real Estate – one of the largest property managers in the Baltic States – is growing. The deal will also allow BPT to strengthen its Polish business. Healthcare is also attracting PE interest. BaltCap is investing in leading Estonian dental care company Dental Invest Estonia with a 56% ownership stake. The growth outlook for healthcare is positive and dental care is one of the fastest growing segments.

IT also witnessed deal action in 2015. "The IT sector is very dynamic and Estonia has been recognised as a favourable country for start-ups," says Papp. For example, Japan-based Rakuten acquired Estonian-founded tech start-up Fits.me, which developed 'virtual fitting rooms' for online retailers and brands, from an international PE consortium consisting of Conor Venture Partners, Primary Venture Partners, Entrepreneurs Fund Management, SmartCap and Fostergate Holdings. This indicates a healthy PE exit environment. "While deal volume remained somewhat muted in Estonia during 2015, the activity around start-ups definitely had an energising and catalysing effect on Estonia's business environment," concludes Papp.

Baltic deal value by country, %



BALTIC OUTLOOK

The Baltics outperformed most other European economies in 2015 and the European Commission forecasts solid growth again in 2016. GDP growth in Latvia is expected to rise to 3% (up from 2.4% in 2015), in Lithuania to 2.9% (1.7% in 2015) and in Estonia to 2.6% (1.9%) against the overall euro area forecast of 1.8%.

Despite the headwinds – among them Russian recession, sanctions and global fallout from the continuing slowdown in China – the region is well-placed to weather the storm. "Investors shouldn't be afraid of looking towards the Baltics because it's a very stable environment," says Papp. The impact of the Ukraine-Russia crisis is still simmering, but the situation has not impacted the Baltics as much as feared, allowing investors to adapt to the status quo and get on confidently with the new normal.

Cautious PE firms who put exits on hold during 2015 will be looking to test the water in 2016. "Exits have been paused for quite some time," notes Papp. "You can't postpone them forever."

The M&A Heat Chart, which captures 'company for sale' stories tracked by Mergermarket over the past 12 months, indicates that TMT is generating the highest number of M&A targets at the 'hot' end of the scale.

Financial services, industrial and chemicals and transportation come next on the heat chart. Infrastructure and ports are among the likely targets: "The logistics sector is looking for investment as it is changing strategy with regards to the whole new Russian situation and the Latvian government's drive to become the regional transit hub," says Slaidins.

Agriculture and business services are close behind, each generating four potential M&A targets. "With the Russian effect and the development of milk prices in Europe and worldwide, we expect more consolidation in agriculture," says Papp.

The Baltic countries are some of the best performing countries economically in the EU and the outlook for 2016 is positive. The regulatory regime is stable and deal flow is solid. While the Baltics offer smaller targets in the mid-market range, the regional reach of Baltic businesses often yields good opportunities and some sectors with large-scale infrastructure can result in assets for sale with diverse investment ranges.

> "The logistics sector is looking for investment as it is changing strategy with regards to the whole new Russian situation."
>
> *Raimonds Slaidins, Partner, Ellex Latvia*

Baltic countries heat chart

Sector	Company for sale stories
TMT	9
Financial Services	5
Industrials & Chemicals	5
Transportation	5
Agriculture	4
Business Services	4
Consumer	3
Energy/Mining/Utilities	3
Leisure	2
Defence	1
Government	1
Pharma/Med/Biotech	1
Real Estate	1

Company for sale stories tracked by Mergermarket between July 1 2015 to December 31 2015

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