



Ellex<sup>€</sup>

BALTIC M&A MONITOR 2020



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# FOREWORD

Welcome to the 2020 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. The report closely examines M&A trends in the three Baltic states: Estonia, Latvia and Lithuania. This includes insights into particular sectors and countries, and forecasts for the year ahead.

Despite muted global economic growth, 2019 proved to be the second-best year for dealmaking in the region since the credit crunch, with 65 deals worth €1.04bn – a tally beaten only by 2018, with 76 transactions totalling €2.8bn. The biggest deal was the €410m acquisition by Estonian bank LHV Pank of Danske Bank's private loans unit, as Danske continued to withdraw from the country in the aftermath of a money laundering scandal in its Estonian unit. Another major deal was the April purchase by German cement maker Schwenk Zement of the Baltic and Nordic assets of Cemex, the Mexico-based cement giant, for €340m.

The region continued to see a healthy pace of smaller M&A deals in tech companies, with technology, media and telecoms (TMT) accounting for more transactions than any other sector in 2018-19. A high-profile tech deal was the €150m acquisition by UK private equity firm Apax Partners of Lithuania's Baltic Classifieds Group.

International interest in inbound Baltic M&A remains broad-based: of the four deals with a disclosed value above €100m in 2019, one involved a British, one a US and one a German bidder. The fourth was the deal involving Estonian bank LHV Pank.

Sometimes adverse events prompt M&A. Aside from Danske Bank's divestments in recent years, in 2019 Estonia saw the sale of two oil terminals, Vopak E.O.S. and Oiltanking Tallinn, amid a challenging backdrop of low oil prices and the rerouting of Russian oil.

More important to the Baltic states' M&A, however, are the many positive factors the region can offer. One of these is its strong economic growth, part of the long-term convergence in GDP between Eastern European countries in the EU and their Western European counterparts. Another is the high level of education. Estonia is the top European country in maths, science and reading in the OECD's prestigious Pisa rankings, and Latvia and Lithuania are in the top half globally in each of these subjects. All three countries also score well in the World Bank's Ease of Doing Business index. Finally, Estonia's capital Tallinn and Lithuania's capital Vilnius have long histories as tech hubs.

There are undoubtedly challenges for M&A in the region – not least the strong competition for assets. However, the Baltic region's proven ability to innovate should ensure the continued emergence of new and attractive M&A targets.

We hope you enjoy reading this report. As always, we welcome your feedback.

# M&A OVERVIEW

## In spite of a year-on-year fall in deal value, M&A activity in the Baltics in 2019 achieved impressive totals by historical standards

M&A in the Baltic states in 2019 performed well, with 65 deals recorded, even against 2018's post-credit crunch record. Activity among local trade buyers and investors was strong, but many international buyers beat a path to the region too.

The total disclosed value of deals was, at €1.04bn<sup>1</sup>, admittedly well under half the 2019 value of €2.8bn. However, M&A watchers should not read too much into this decline, for two reasons. One is that the number includes only deals with officially disclosed values. Another is that the 2018 total was boosted by one particular deal: the €1bn acquisition of a majority stake in regional bank Luminor, by a consortium of private equity funds led by Blackstone. Excluding this transaction, the decline in value was much less steep.

### Estonia continues to lead

Recent years have witnessed a striking change in the geographical mix of M&A. Estonia saw the highest number of deals for the fourth straight year, accounting for 42% of transactions across the region, although last year Lithuania did run Estonia a close second.

Although Estonia is the least populous Baltic state, it enjoys the highest GDP per capita. It has also received a strong endorsement by the International Monetary Fund (IMF) in its latest report on the country. The IMF notes: "The economy has performed well in recent years, supported by prudent management and effective structural reforms."

The country has a sterling reputation for being business friendly. In the World Bank's Ease of Doing Business rankings, it is placed 18th out of 190 countries, and in the top 10 for registering property and enforcing contracts. Finally, while the country has received negative attention due to recent money laundering scandals, this must be put in perspective. Transparency International, which ranks countries by their citizens' perception of public sector

### Frenetic M&A in Estonia



"The past two years have been extraordinarily good years for Estonia. We have seen a huge number of deals – many more than there used to be. Estonia is a high-tech country, and this gives it a competitive advantage. It has also benefited from very strong and steady GDP growth figures. The biggest challenge is a problem of success: in a small country that has already seen a large number of deals, there

is not an unlimited supply of high-value assets that can be put on the market every year."

*Sven Papp, partner, Ellex in Estonia*

### Increasing regulatory challenges



"One of the main challenges for M&A is the regulatory environment. This is increasingly the case in Lithuania as well as the Baltics and Europe more generally. Regulations are still evolving, and they cover a wide range of industries and sectors such as energy, transport, IT, TMT, finance and military equipment. In Lithuania, all of these sectors are subject to approval by

the government's National Security Commission."

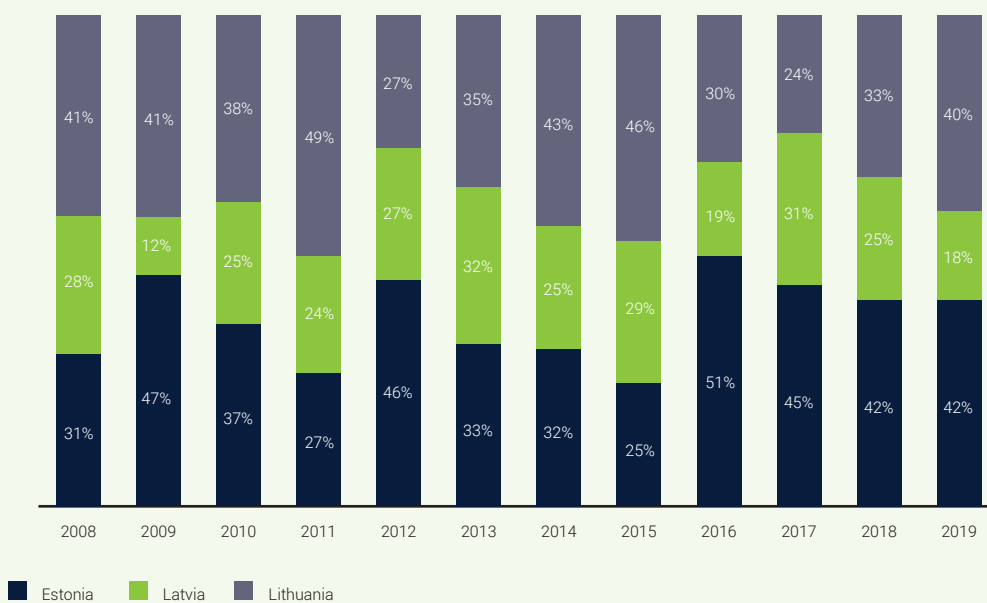
*Paulius Gruodis, partner, Ellex in Lithuania*

<sup>1</sup> Mergermarket only registers deals with a minimum deal value of €5m. This report only includes deals where the dominant target country is listed in one of the Baltic countries.

### Baltic M&A, 2008-2019



### Baltic deal volume by country



corruption, places Estonia 18th out of 180 countries and territories in its 2019 survey. The organisation notes that, over the previous eight years, Estonia's score has risen among the fastest of any country. It remarks: "A comprehensive legislative framework, independent institutions and effective online tools make it possible to reduce petty corruption and make political party financing open and transparent."

Prominent recent deals in Estonia include the biggest single transaction of 2019 across the Baltic countries: the €410m acquisition by Estonian bank LHV Pank of Danske Bank's private loans unit. Last year saw 27 deals in Estonia, with a disclosed value of €415m, compared with 32 deals with a value of €2.3bn the previous year.

#### Lithuania deal count edges up

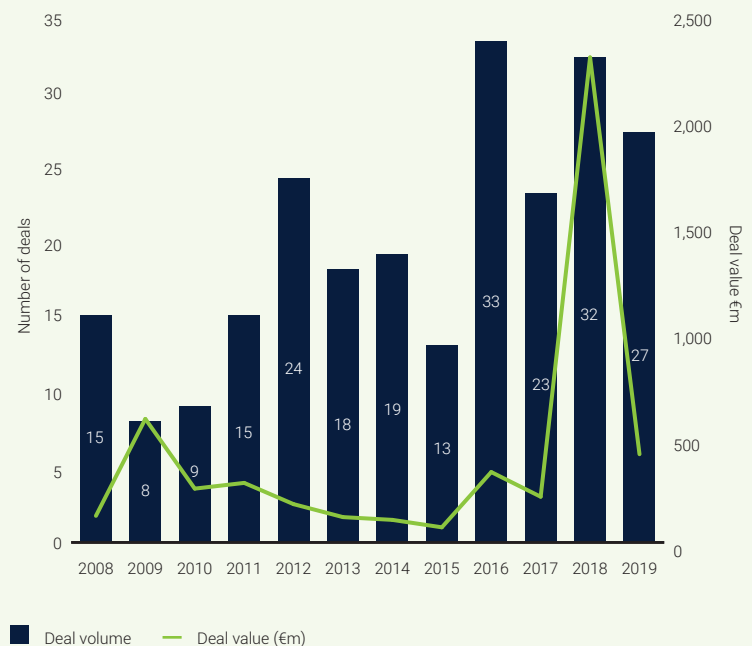
Lithuania was the only Baltic state to see an increase in the number of deals in 2019 – up by 1 to 26. Deal value also increased sixfold to €278m, largely because of the €128m investment in online vintage fashion marketplace Vinted by a group of venture capital investors. Similar to Estonia, Lithuania has a large amount of high-tech talent – aside from the Vinted investment, the country also witnessed the sale of fleet management software developer Baltic Car Equipment to US-based Xirgo Technologies.

The business environment is deeply attractive for investors: Lithuania ranks 11th, the highest of any Baltic state, in the World Bank's Ease of Doing Business index, and in the top 10 for enforcing contracts, registering property and dealing with construction permits.

#### Latvia deal value rises

The number of deals in Latvia fell from 19 in 2018 to 12 in 2019. This was at the lower end of the range for recent years. However, total disclosed deal value was, at €345m, the third highest in recent times because of one very large deal: the €340m purchase by Germany's Schwenk Zement of the Baltic and Nordic assets of Mexico's building materials company Cemex.

#### Estonia M&A, 2008-2019



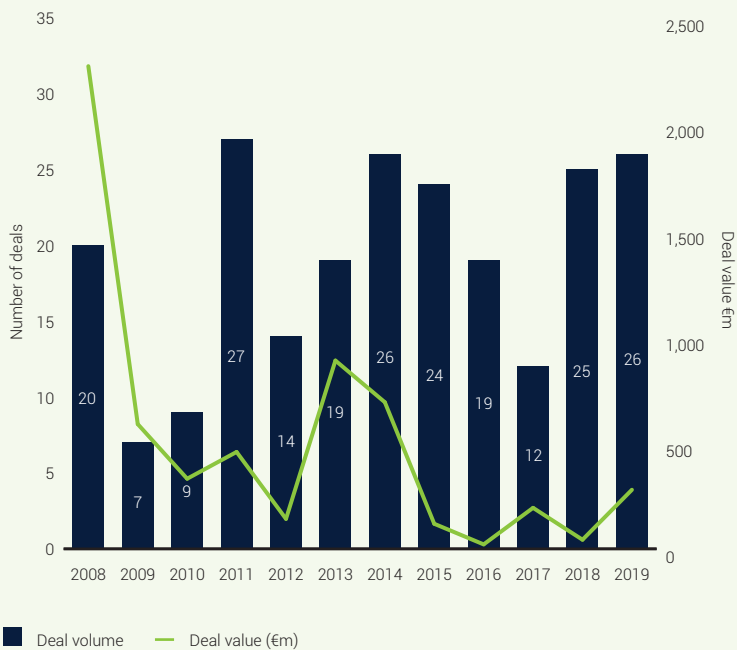
#### Latvia clamps down on money laundering



"Latvia has witnessed a real clampdown on money laundering: how banks accept clients, and what information they need to confirm who is the ultimate beneficial owner of their client company. Latvia's Company Registrar also has new requirements for checking and confirming ultimate beneficial owners. In certain cases, even very well-known and reputable foreign clients of ours have had problems opening accounts. This has hampered corporate activity and potentially M&A. This is the new normal here, however, and eventually it will not be as onerous, once everybody gets used to the system. Even now, if you have all your documents in order, it is still possible to open a business within one working day."

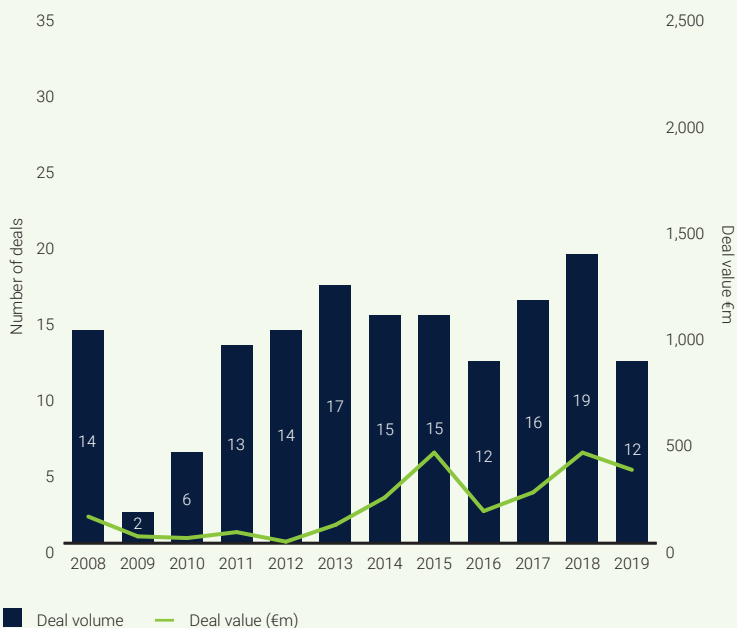
*Raimonds Slaidins, partner, Ellex in Latvia*

## Lithuania M&amp;A, 2008-2019

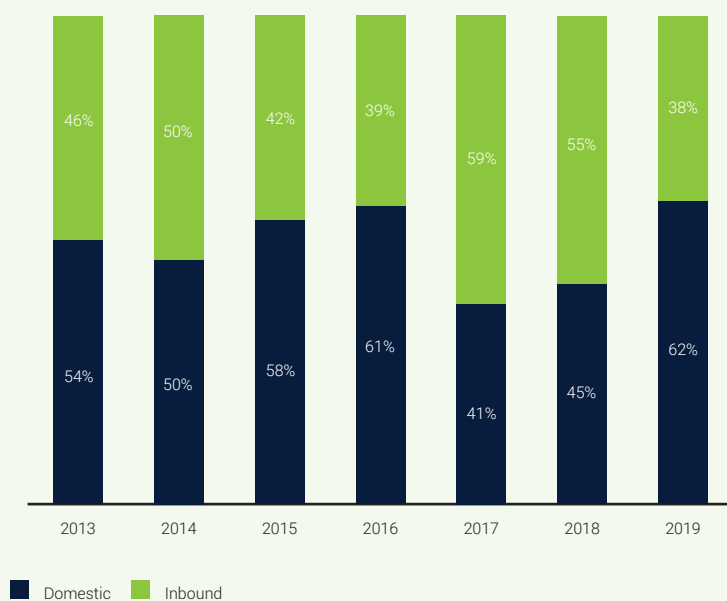


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## Latvia M&amp;A, 2008-2019



### Inbound vs domestic M&A volume, 2013-2019



### Inbound interest

As in previous years, the majority of M&A deals were domestic ones, but inbound investors dominated the value charts, reflecting the tendency of foreign buyers – both trade and PE houses – to focus on larger ticket transactions. Yet, with a vibrant tech scene, foreign investors are also looking at the Baltics' promising firms with global potential.

One such transaction was the €128m VC investment in Lithuanian vintage fashion marketplace Vinted, which was led by the Menlo Park, California-based Lightspeed Ventures. The deal put Vinted among the rarefied club of Baltic unicorns (privately held companies valued at \$1bn or more). While this was a late-stage VC round, earlier stage tech firms in the region are also attracting international interest. For instance, Latvian audio technology firm Sonarworks' €5m funding round included participation from Dutch VC Revo Capital, though it was led by Estonia-based Karma Ventures and Lithuania-based Practica Capital.

As a general rule, the majority of inbound M&A to the Baltic region stems from US and European buyers. While there have been a few notable deals in recent years from Chinese bidders, including ride-hailing firm Didi Chuxing's participation in several funding rounds in Estonia's Bolt (formerly known as Taxify) since 2017. However, generally speaking, "interest among Chinese bidders is still quite rare – at least for Estonia – probably because of the small size of the economies," according to Papp. Moreover, going forward, would-be investors from China could face additional scrutiny on the grounds of national scrutiny, much in the same way that they have in other EU countries. A possible straw in the wind is the September 2019 decision by the Estonian government against using technology from Chinese ICT firm Huawei in its 5G network.



### The Brexit effect

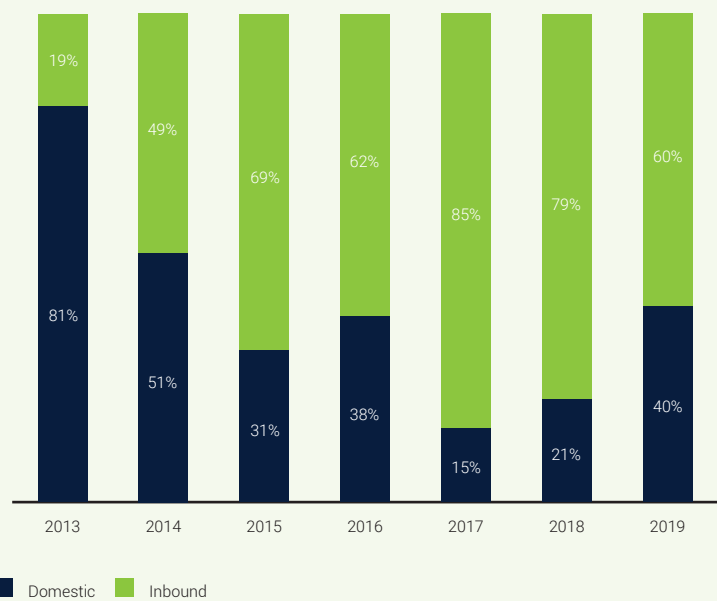


"The impact of Brexit is already being seen in Lithuania. UK financial institutions are still monitoring the legal requirements for continuing business in the Baltic

states after Brexit. Some clients have already engaged us to establish subsidiaries that will be licensed in Baltic states, with the right to enter the EU market, and a number of UK financial institutions have applied for licenses in Lithuania. UK firms will continue to watch and wait, as they see how the trade negotiations progress during the 2020 post-Brexit transitional period."

*Paulius Gruodis, partner, Ellex in Lithuania*

### Inbound vs domestic M&A deal value, 2013-2019



### Leveraging local companies



"One of the biggest fintech deals in Estonia was last year's acquisition of Fitek, an Estonian company that has been developing different payment systems, by Belgium's UnifiedPost

– which we advised. What possible interest can a Belgian company have in buying a Baltic fintech? The answer is that the expertise of these fintechs can be leveraged into other, much larger markets."

*Sven Papp, partner, Ellex in Estonia*

Looking ahead, GDP in the Baltic region is expected to continue to grow – the IMF predicts that even in the slowest-growing economy, Lithuania, growth will remain above 2% for the foreseeable future – far above the rate for the EU as a whole.

A greater risk to foreign interest in Baltic M&A is more likely to come not from headwinds generated in the Baltics, but external issues. A decelerating global economy and stock market downturn would probably slow private equity investment globally. A slowdown in Europe, caused, for example, by problems with Brexit or turbulence in the relatively cyclical German economy, could curb the appetite for foreign investment among trade buyers and European private equity houses.

# SECTOR WATCH

## The Baltic M&A market remains diverse in terms of sector focus, though TMT and financial services fared better than many other sectors

Technology, media and telecoms (TMT) remained the most popular sector for dealmaking in 2018-19. This reflects the impressive technical know-how of the Baltic region, as well as the strong growth opportunities of TMT businesses in the face of ongoing digital disruption across all sectors of the economy. E-commerce deals, like the Vinted investment and the sale of Baltic Classifieds Group to Apax, demonstrate the migration of consumers to online channels, while the sale of cable TV operator Baltcom to mobile operator Bite is an example of continued convergence within the telecoms industry thanks to technological change.

Financial services, meanwhile, saw the occasional very large transaction, prompted by a restructuring of the region's banking sector after a series of damaging money laundering scandals involving Nordic banks operating in the Baltics.

### Technology, media and telecoms

Many of the TMT M&A deals in the Baltic states this year were small. As a result, they accounted for only 9% of the total value of M&A deals in 2018-19. A typical example is May's €5m investment in Sonarworks, a Latvian audio technology start-up, by a consortium of venture capital investors led by Estonia-based Karma Ventures and Lithuania-based Practica Capital.

Some of the TMT deals this year were cases where investors saw an opportunity to export locally developed technology to other markets – this includes both the Sonarworks investment and Belgium-based UnifiedPost's acquisition of Estonian fintech firm Fitek.

Other deals, however, are about consolidating the market within the Baltics. One of the biggest Baltic M&A transactions of last year was the €150m acquisition by UK private equity (PE) house Apax Partners of Lithuania's Baltic Classifieds Group, which owns and operates a number of online marketplaces. Apax has already added on to its Baltic Classifieds Group investment – in May, it

acquired Estonian online automotive marketplace auto24 from PE firm BaltCap.

In another consolidatory deal, Latvia-based mobile phone operator Bite acquired a majority stake in domestic cable TV provider Baltcom. The deal follows many other European telcos' move towards 'quad-play' (offering internet, fixed-line telephony, mobile, and cable TV services) in the face of falling margins as a result of technological convergence between these once-disparate products.

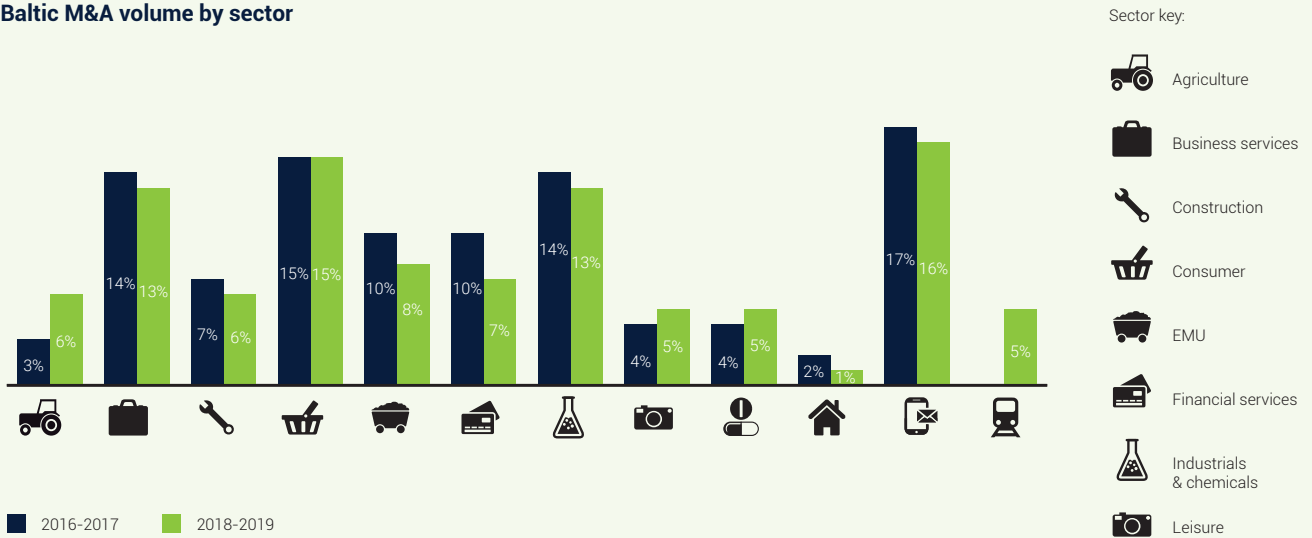
With a tech-savvy population, the Baltics are increasingly turning to digital means of distribution, which might explain why there were two transactions in the region in 2019 involving the sale of online ticketing services. In June, Ekspress Grupp, an Estonian media company, acquired Biļešu Paradīze, a Latvian ticketing service, only for Estonia-based Baltic Ticket Holdings to be snapped up as well in October by UP Invest, a local PE firm.

### Financial services

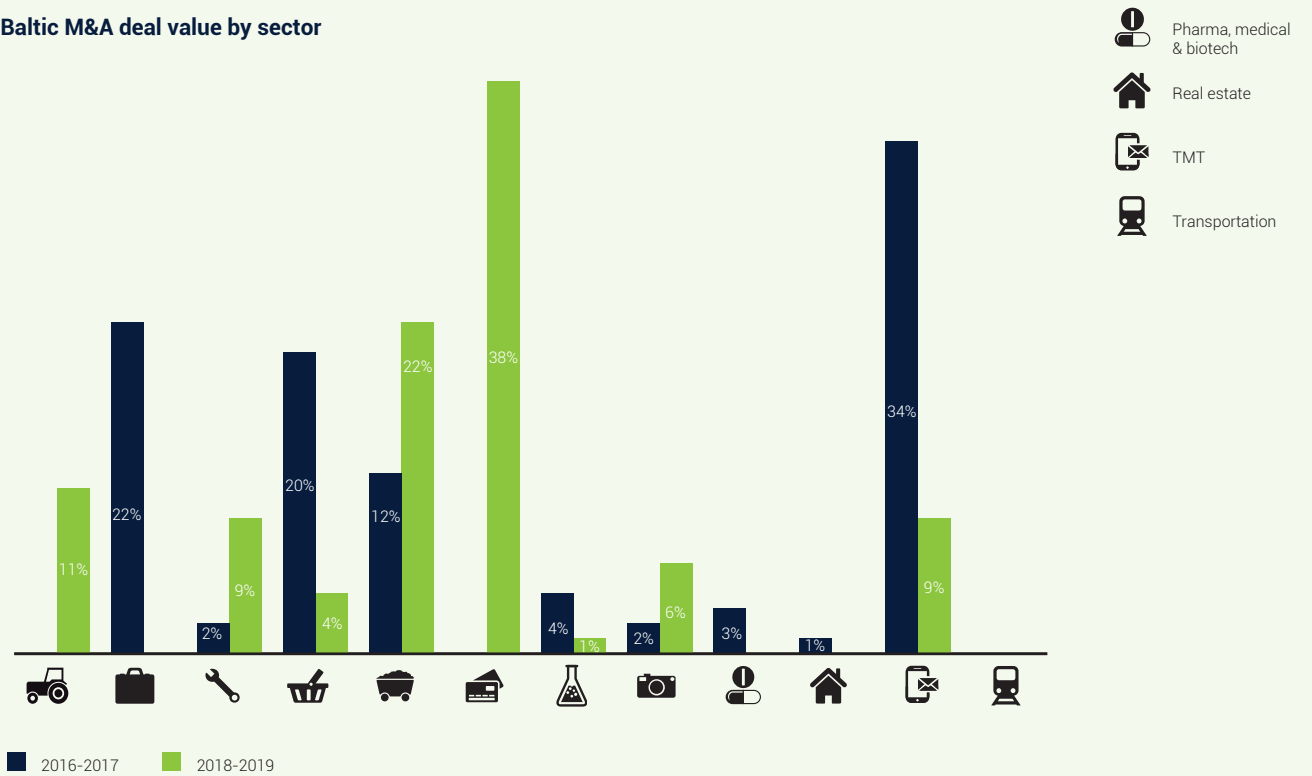
Financial services deals accounted for 38% of M&A value in the Baltics in 2018-19, the highest of any sector, though the sector only made up 7% of overall volume during the same period. The dominance of financial services in M&A value over the past two years was due primarily to two deals, the larger of which was the €1bn 2018 sale of a 60% stake in banking group Luminor, set up the year before by merging the Baltic operations of Scandinavian banks Nordea and DNB, to a private equity consortium led by US-based PE Blackstone. The other was the 2019 sale of Danske Bank's private loans business to LHV Pank, an Estonian bank, for €410m. These deals were the Baltics' largest transactions in any sector in 2018 and 2019 respectively. They reflect intense pressures on the industry, which are likely to continue triggering M&A deals.

A number of Nordic banks had enjoyed great success in the Baltic region after the financial crisis, only to be caught up in money laundering scandals involving Russia and other former Soviet Union countries. Latvia's third largest bank, ABLV,

### Baltic M&A volume by sector



### Baltic M&A deal value by sector



### Top deals in 2019

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value (€m)
05/06/2019	Danske Bank (Estonian private loans unit)	Financial services	Estonia	AS LHV Pank	Estonia	Danske Bank A/S	Denmark	410
20/02/2019	CEMEX S.A.B. de C.V. (Baltic and Nordic assets)	Construction	Latvia	Schwenk Zement KG	Germany	CEMEX S.A.B. de C.V.	Mexico	340
09/05/2019	Baltic Classifieds Group OU	TMT	Lithuania	Apax Partners LLP	United Kingdom	AS Postimees Group	Estonia	150
28/11/2019	Vinted	Consumer	Lithuania	Accel; Insight Venture Partners LLC; Lightspeed Venture Partners; Sprints Capital Management Limited; Burda Principal Investments GmbH & Co.	USA			128
16/05/2019	Sonarworks SIA	TMT	Latvia	Revo Capital; Practica Capital KUB; Proks Capital SIA; Imprimatur Capital Fund Management; Karma Ventures ; Superangel	Estonia			5
29/04/2019	TBD-Biodiscovery OU (30% Stake)	Pharma, medical & biotech	Estonia	SEAL Investment BV	Netherlands			5

collapsed in 2018 because of this and, in February 2019, the Estonian regulator told Danske Bank to close its Estonian business, through which €200bn of suspicious money had flowed over more than a decade.

These scandals have prompted or even forced a cutting back by a number of Nordic banks of their presence in the region but have also spurred Baltic countries to implement regulatory reforms to improve anti-money laundering (AML) policy. In the meantime, as Nordic banks exit the market, other investors see potential in Baltic financial services, as made evident in the Luminor and Danske Bank transactions.

#### Lithuania: becoming a fintech hub



"Lithuania is definitely on the way to becoming a fintech hub. The central bank is overseeing programmes to encourage fintech development in particular areas, including blockchain and regtech: technology aimed at dealing with the increasing amount of financial services regulation. The Bank of Lithuania is also trying to foster open banking, allowing consumers and businesses to use third-party software providers to manage their finances. Encouraged by this, a lot of people are investing in fintech. In 2020, I am confident that we will witness an increasing number of fintech M&A deals in the country."

*Ieva Dosinaite, partner and head of finance, Ellex in Lithuania*



The year also saw two deals involving Lithuanian asset managers. In June, Lithuanian private investors Audrius Ziugzda and Rytis Davidovicus announced the acquisition of Lewben Investment Management from Rita Kavaliauskiene, another Lithuanian private investor. In April, Lithuanian investment management firm Dovre Forvaltning was acquired by Huddleston, a Norwegian crowd-trading platform.

### Energy, mining and utilities

In the face of climate change and government programmes encouraging a shift to cleaner energy, corporates and financial sponsors alike have taken the opportunity to strike deals in the energy, mining and utilities (EMU) sector. Although the sector accounted for only 8% of deals in the Baltics in 2018-19, it made up 22% of the value of M&A – a higher proportion than in 2016-17 (12%).

Much of the overall value in the region for those two years was due to two large deals announced in 2018, both for targets with a focus on renewables. The €493m sale of Estonian renewables firm Nelja Energia to domestic peer Enefit Green was the largest EMU deal in the Baltics of the past decade. Meanwhile, the €320m sale of an 85% stake in utility firm Utilitas Energy to First State Investments, a UK-based asset management firm, was the second largest EMU deal in the region of the past ten years. Utilitas generates a considerable amount of power from renewable sources.

None of the EMU deals announced in 2019 had disclosed values, although a clear theme can be discerned nonetheless. Like the two large deals in 2018, many of 2019's transactions also had a green angle, including the sale of Lithuanian wind farm operator Veju Spektras to Quaero Capital, a Swiss investment fund.

Another financial sponsor with an interest in cleaner energy in the Baltic region was Japanese investment firm MM Capital Partners, which acquired a 29.06% stake in Conexus Baltic Grid, a Latvian natural gas transmission firm. As the cleanest of the fossil fuels, demand for natural gas is soaring, especially in Asia.

In Lithuania, the government has announced an ambitious target – for 45% of its energy to come from renewables by 2030, and 80% by 2050. Lithuania also plans to eliminate electricity imports by 2050. These plans are supported by a state aid scheme. These two ambitions have greatly increased the attractiveness of renewables in the country, creating the conditions for a flurry of deals during the year.

The renewables industry is nonetheless facing challenges. Many governments around the world, including the UK and Spain, have scaled back their subsidies for green energy or cancelled them altogether. In Latvia, however, there is an additional hiccup: not only have subsidies been reduced, the government is carrying out an audit of renewable energy companies and terminating the licences of those that have breached regulations. "While there's still a cloud over some of these companies, it's going to deter transactional activity," says Slaidins.

### Consumer

The consumer sector was the second busiest by volume in the Baltic region for both 2018-19 and 2016-17, accounting for 15% of the deals in both periods. However, these deals tend not to be of great size, and there was no large deal in 2018-19. For this reason, the consumer sector slumped from the third largest sector by value in 2016-17 to the sixth largest in the following two years.

Excitingly, September saw the creation of a new tech unicorn in the e-commerce sector, when US-based VC firm Lightspeed Venture Partners led a €128m Series E funding round in Lithuanian second-hand fashion company Vinted. While Vinted did not disclose its exact valuation at this funding round, it has confirmed that it is now valued at over \$1bn. Second-hand fashion is growing as a green antidote to fast fashion. The company plans to use the fresh capital to further expand across Europe, scale up its team and finance additional acquisitions, with the aim of pursuing an aggregation strategy in the region. It already has foreign offices in Berlin, Warsaw and Prague.

The past year has also seen a number of deals involving automotive retail. Veho, a Finnish car dealer, acquired Estonia-based Siberauto, a dealer of Mercedes-Benz, Mitsubishi Motors and Jeep brand vehicles. As part of this reorienting of Veho's ambitions, it sold an Estonian subsidiary, Veho Eesti, to Finland-based Auto-Bon.

Another deal in this sector, announced in 2018 and completed in January 2019, was the acquisition of the Lithuanian BMW distribution business of Inter Krasta, a local company by UK-based automotive distributor Inchcape.

### Industrials and chemicals

The industrials and chemicals sector is an important one for Baltic M&A, accounting for a respectable 13% of deal volume over 2018-19, a similar proportion to business services. The majority of deals during that period, however, did not have publicly disclosed transaction values.

Only one deal, in fact, had a publicly disclosed deal value – Estonian PE BaltCap's €43m sale of Estonia-based aircraft maintenance firm Magnetic MRO to China-based Guangzhou Hangxin Aviation Technology at the start of 2018.

The Baltics' strategic location between East and West has long been one of its strengths, and was part of the reason for the sale of Magnetic MRO to Hangxin. The same dynamic influenced other transactions in the sector, including the acquisition of Milviteka, a Lithuanian manufacturer of bulk handling equipment, to French industrial equipment manufacturer Precia Molen. As part of that sale, Precia Molen said that "the proximity of Russia, Scandinavia and Eastern European countries offers promising opportunities" for the asset.

For some international strategics, the goal is not to use the Baltics as a launching point into neighbouring regions, but to exploit the existing potential in the

### TMT continues to thrive



"TMT remained the most popular sector for dealmaking in 2019. This reflects the impressive technical know-how of the Baltic region, as well as the strong growth opportunities of

TMT businesses in the face of ongoing digital disruption across all sectors of the economy."

*Povilas Junevicius, senior associate,  
Ellex in Lithuania*

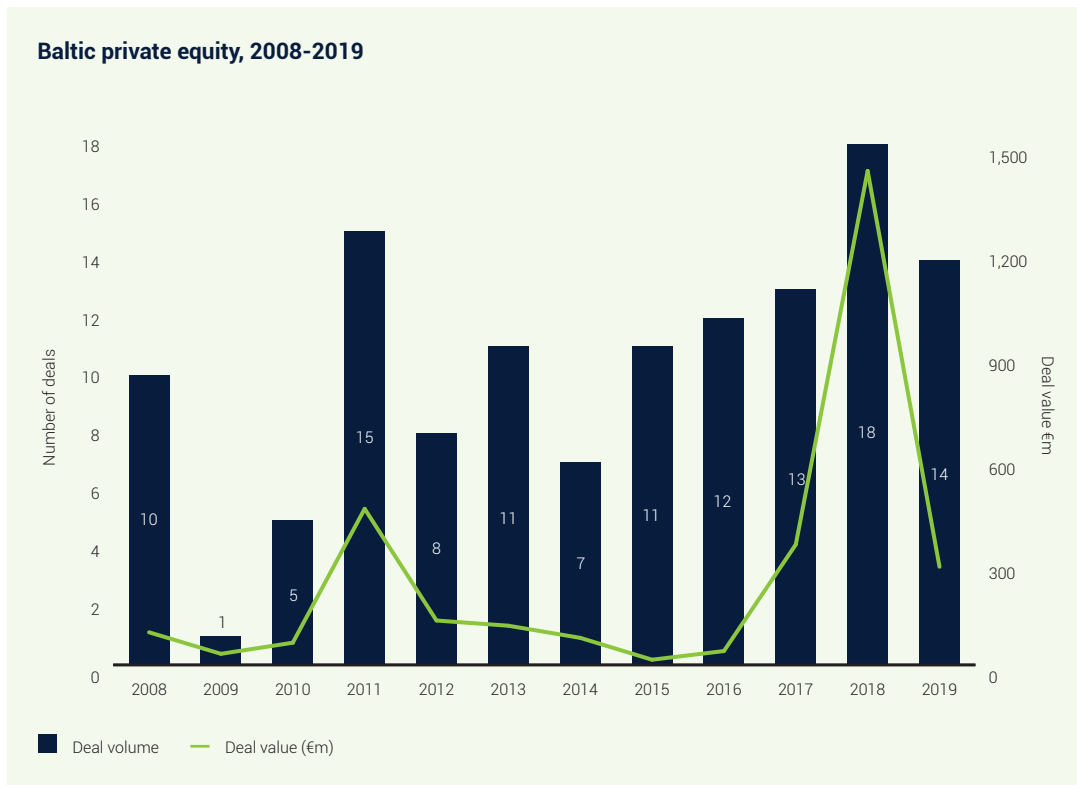
Baltics itself. This was the case in the sale of Estonia-based plastics and aluminium firm Proplastik to Vink Plast, the Danish subsidiary of global plastics distributor Vink Group. Proplastik stated at the time of the sale that the transaction would allow it to improve its product range across the Baltics.

The attraction of the Baltic market for Western European strategics is evident in a number of other recent deals. Germany's Zeppelin Systems, a construction machinery sales and servicing firm, for instance, acquired the Scandinavian and Baltic businesses of Pon Holdings, a Netherlands-based dealership of Caterpillar machinery.

### Private equity

Over the past three decades, growing numbers of local companies have developed to the point where they make ideal targets for buyouts, including from international PE houses. The impressive levels of technical expertise have been a particular attraction for PE firms.

In spite of the attention from international PEs, the Baltics' total private equity deal value in 2019 dropped



80% to €283m, compared with the 2018 figure of €1.4bn. That, however, was an outlier year, with far and away the highest annual total of the decade – thanks in large part to the €1bn Luminor transaction. The number of private equity M&A deals in 2019 was lower than its 2018 peak, but still quite strong, at 14 – the second highest tally since 2011.

Although the largest financial sponsor-related deals in the Baltics of the year – such as the Apax/Baltic Classifieds Group transaction and Vinted's Series E round – all involved international investors, local investors also had a part to play in the PE dealmaking landscape in 2019. Baltic deals remain generally quite small, and many are more suitable for smaller, local private equity houses and venture capital firms.

UP Invest, an Estonian private equity and venture capital firm, for example, was particularly active, making four acquisitions over the course of 2019, including the acquisition of Baltic Ticket Holdings, which operates event ticket distribution firms in the Baltic states and Belarus. Terms for that deal were not disclosed.

Other prominent Baltic-based firms include Latvia-based Livonia Partners and Estonia's BaltCap. Livonia acquired Estonian glass processing company Klaasimeister from its founders in October, while BaltCap in December agreed to acquire Krekenavos Agrofirma, a Lithuanian meat processing company.

BaltCap was also involved in a few exits this year, including the sale of auto24, an Estonia-based online automotive marketplace, to the Apax-backed Baltic Classifieds Group.

The sale of auto24 was not the only example of a regional PE firm exiting from an investment by selling it on to a larger, internationally based sponsor. In August, Lithuania-based LitCapital Asset Management sold bicycle manufacturer Baltik Vairas to KJK Management, a Luxembourg PE firm. While terms for the deal were not disclosed, it is likely a substantially sized transaction, as Baltik Vairas had revenues of more than €70m in 2018.

As the Baltic PE market develops, regionally focused funds which have acquired and helped expand local companies are now in the position to exit them by selling them to larger, international PEs with the capacity to further help them grow or to take advantage of economies of scale. In the case of Baltik Vairas, for instance, KJK Management stated the transaction strengthens KJK Sports' position as the leading bicycle producer in the European market, and opened 'significant synergy options' with Leader 96, a Bulgarian bicycle maker already in its portfolio.

Looking to the future, Paulius Gruodis, partner at Ellex in Lithuania, expects a large number of PE exits in the Baltic states this year, as many local funds' cycles are approaching their end. Yet, there is still potential for buyout activity, thanks to the entrance of new players to the market and the larger sums of dry powder available.

#### Home-brewed private equity



"We have what is becoming a very healthy private equity and venture capital community in the Baltic states, with funds here that can do smaller deals that lie under the €20m-or-so threshold for the bigger private equity players. However, even below this smaller threshold, it is still a fight for these firms to find good investment opportunities, because there are only so many good targets."

*Raimonds Slaidins, partner, Ellex in Latvia*

#### Exciting tendencies in the Lithuanian market



"On a positive note, we see that the private equity industry has more dry powder than ever before in our history. Last year, Baltcap announced a new €136m fund and INVL Baltic Sea Growth Fund, a €165m fund. It is the first time that we have witnessed two local private equity firms actively bidding for the same asset. At the same time, we have encountered at least two of the top five European private equity houses bidding for local assets. These are exciting tendencies in the market and hopefully they outweigh global uncertainties, related to coronavirus, trade wars and Brexit."

*Robertas Ciocys, partner, Ellex in Lithuania*



# BALTIC OUTLOOK

**Entering 2020, M&A in the Baltics is facing considerable challenges, including slowing global growth. Nevertheless, there are reasons for optimism.**

Economic growth is expected to cool in 2020 in all three Baltic states, but the outlook remains strong. The sheer number of deals over the past year, including some large transactions, bodes well for the future. Moreover, some big international investors, such as PE houses Apax Partners and Blackstone, have chosen to do Baltic deals over the past couple of years. It's not hard to see why – underlying economic strength is robust, with even the slowest-growing economy, Lithuania, forecast by the IMF to show GDP growth of 2.6% in 2020. Moreover, all three countries score well in the World Bank's Ease of Doing Business index. It is quite rare for economies to enjoy both these virtues: fast-growing developing economies often score much worse in the Ease of Doing Business ranking.

Challenges remain, however. One is the region's banking troubles. "The financial supervisory agencies in the Baltics have a very strict approach to non-resident accounts – I would even say they are guilty of over-regulation," says Papp. "The banking sector in the Baltics is dominated by Scandinavian institutions, for whom our local economy is rather small." After the recent money laundering scandals, many Nordic banks have cooled on the Baltic market. "This will probably translate into higher loan rates, making it more expensive for companies to borrow," Papp says. This could hamper economic growth and the ability of promising businesses to expand to the stage where they would be attractive for M&A.

Difficulties in the banking sector could, on the other hand, have a positive influence on M&A as well. Progress is being made in the sector, which in the long-term will be strengthened by the crackdown on money laundering, even if there is short-term pain. "We are now getting on top of anti-money laundering issues," says Slaidins. "Latvia is a leader in that area at this point, as far as Europe is concerned."

## Sensitive to the global economy



"It is too early to say what the exact effect of Brexit will be outside Britain, and this current uncertainty affects all European markets. This is important to dealmaking because broader market sentiment affects the appetite for M&A. On the good side, talk about the future of the eurozone has died down – maybe people are just tired of discussing it, though some speculation about its long-term future remains.

Looking more globally, US-China relations, and probably US-European relations, will have an effect on the European economy. The Baltics will not be insulated from this: inflection points in the economic cycle tend to start in New York, and eventually, via London and then Stockholm, reach the Baltics."

*Sven Papp, partner, Ellex in Estonia*

## Latvia: building the tech skills base



"There is a good, knowledgeable workforce in Latvia, but we are short of people at this point, because the IT companies have been snapping up all the IT workers who are here. It is hard to find more good tech workers. Responding to this, there is a new emphasis in the Latvian education system on giving students technical, scientific knowledge. The ultimate hope is to increase capacity in the tech sector through this initiative."

*Raimonds Slaidins, partner, Ellex in Latvia*

Moreover, the Baltic states' strong economic growth, and the high skills levels of their workforces, will remain driving forces behind M&A in the region in coming years. Many opportunities to invest in high-value businesses remain, not least thanks to being boosted by prior investment by local VC and PE firms.

Recent media coverage of 'for sale' stories concerning Baltic companies certainly bodes well for future activity. Over the past six months, Mergermarket has identified stories involving 56 Baltic companies – four more than for the same period a year before, and 34 more than for the same period two years ago. These 'for sale' stories are broad-based in terms of sectors, with twelve for TMT, eight each for EMU and the consumer sector, seven for industrials & chemicals, and six each for business services and financial services. In other words, when it comes to M&A, the Baltic region is still very much open for business.

All of this is contributing to optimism for deal activity in the region. "In Lithuania and the Baltic states more generally, the general sentiment is very positive. We do not see any objective signs of a slowdown," Gruodis says.

#### Baltic countries heat chart

Sector	Companies for sale stories
TMT	12
Energy, mining & utilities	8
Consumer	8
Industrials & chemicals	7
Business services	6
Financial services	6
Transportation	4
Leisure	2
Agriculture	1
Construction	1
Pharma, medical & biotech	1

Companies for sale stories tracked by Mergermarket  
01/08/2018 – 01/02/2019.

#### A good neighbourhood



"The Baltic States' main economic exposure is to the Baltic Sea region. Looking at this more specifically, Latvia is particularly exposed to foreign investment from Sweden and Norway, Estonia to Finland, and Lithuania to Denmark. Broadly speaking, we are in the same economic boat as the Scandinavian countries. In general, it is a good neighbourhood to be in. The Baltic states are less affected

by trends in the Russian economy these days, because Russia's intervention in Ukraine stopped a lot of business with Russia several years ago."

*Raimonds Slaidins, partner, Ellex in Latvia*

# ABOUT ELLEX

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

**Ellex<sup>®</sup>  
Raidla**

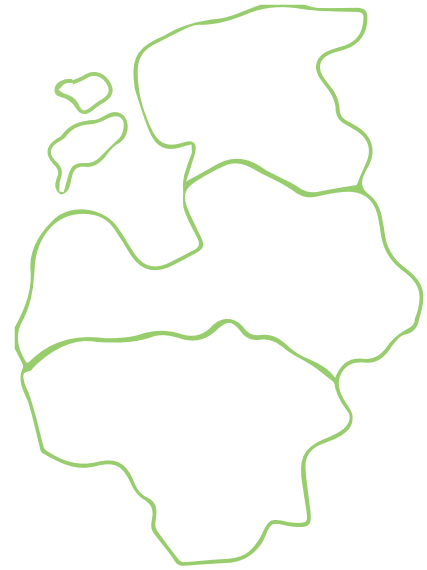
The largest and the highest-ranked law firm in Estonia  
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Valiunas**

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Established in 1992



## Market position

- The largest law firm and market leader in the Baltics with almost 300 employees including 39 partners and 151 associates, counsels and lawyers.
- No.1 law firm in the Baltics by Kantar Sifo 'Tier 1 Law Firm Review' 2016-2019.
- Recognised as one of the 50 most innovative law firms in Europe by the *Financial Times*, 2017-2019.
- The largest and the most recognised Corporate and M&A team in the Baltics for 28 years with 16 partners and 40 lawyers.
- The leading international transaction practice in the Baltics: No. 1 By Deal Count in Eastern Europe, Bloomberg 2018-2019.
- Tier 1 rankings in Corporate and M&A by Chambers Europe, Legal 500 and IFLR 1000.

## Top news

- In 2019, Ellex won the CEE Legal Matters Deal of the Year Award in four categories: Baltics, Estonia, Latvia and Lithuania.
- Ellex advised on five out of ten largest real estate investment deals of 2019 in each of the Baltic countries.
- In 2020, new partner Marko Kairjak with his team joined Ellex in Estonia, creating new practice group criminal compliance & financial regulatory.
- Andris Lazdins joined the management team as Associate Partner and Co-head of Dispute Practice in Latvia.

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# 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 volume of deals on which we have advised.

Further information [www.ellexcircle.com](http://www.ellexcircle.com)

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# 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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