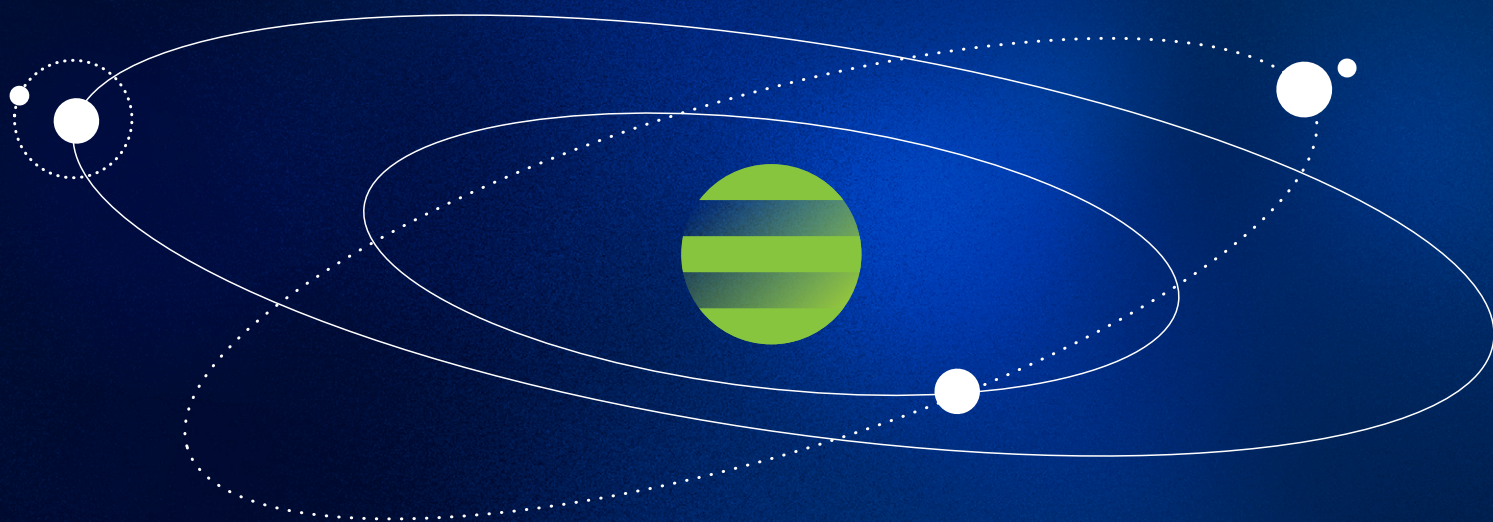


# Ellex<sup>®</sup>

## BALTIC M&A MONITOR 2022



# CONTENTS

Foreword	3
M&A Overview 2021	4
The Baltics in the European Context	10
Sector Watch and Private Equity	14
Baltic Outlook 2022	20
About Ellex	22
About Ellex M&A Team	23
About Mergermarket	24

# FOREWORD

Welcome to the 2022 edition of the Baltic M&A Monitor, a comprehensive review of M&A in the region published by Ellex, in association with Mergermarket. The report scrutinises dealmaking trends in the Baltic countries – Estonia, Latvia and Lithuania – including insights into key sectors and forecasts for the year to come.

The Baltic region last year saw a strong rebound from the pandemic-induced downturn, with M&A activity reaching new records. A total of 112 Mergermarket-qualified deals worth €2.3bn were announced in 2021, easily eclipsing the preceding year's 76 deals worth €1.2bn. Given the persistent effects of the COVID-19 pandemic, this performance was nothing less than exceptional, underlining the Baltics' strengths as an investment destination, including stability, high growth and its world-beating business environment.

The Baltic market is world-renowned for its IT prowess, with Estonia alone producing eight technology unicorns. The region's highly skilled workforce and supportive legislation have contributed to this; new start-ups can thrive in a superb ecosystem with increasing amounts of capital available. No surprise, then, that technology, media and telecoms (TMT) contributed more than a quarter (28%) of Baltic deal volume in 2020/21, up from 16% in 2018/19.

While the sale of Graanul Invest to Apollo PE funds for an undisclosed value likely tops the deal table for 2021, the year's biggest deal with a disclosed value saw Swiss private equity (PE) fund Partners Group acquire Gren Group, a major renewables-based district heating business, for €800m. The region is likely to see more of this sort of transaction in the medium term: PE-driven and focusing on renewable energy, which has huge potential in the Baltics and is heavily supported by EU financing.

The second-biggest deal focused on one of the region's most prominent success stories, Estonia's ride-hailing outfit Bolt, which raised €600m in a Series E funding round. Bolt seems destined to follow the likes of Skype and Wise as global household names from the region.

The third-biggest deal saw Lithuania-based Vinted, Europe's largest consumer-to-consumer platform dedicated to second-hand fashion, raise €250m. Vinted characterises new innovative Baltic companies that are carving out niches in the digital business segment.

That the three largest deals of the year all involved PE clarifies alternative finance's central role in the region. Overall, the volume of PE deals rose 94% to 35 in 2021, while total value soared to a record €1.97bn. The mounting interest of global players has been matched by the growth of a flourishing regional PE and venture capital (VC) scene, as well as a burgeoning range of potential targets.

At the beginning of 2022, it is clear that the global economy faces serious challenges. Resurgent COVID-19 infections connected to new variants threaten to cool demand and disrupt supply chains further, while the surge in inflation facing central banks in the US and many other markets is a global risk that has not been seen for a generation.

But the past two years have shown how the Baltic countries, with their blend of stability and dynamism, can ride out cross-border shocks and reassert their fundamental strengths to a wide variety of investors. As ever, we welcome feedback from readers, and hope you find this report both engaging and enlightening.

# M&A OVERVIEW 2021

## After navigating the height of the pandemic with aplomb, the Baltics enjoyed a bountiful bounce-back in M&A

The Baltic states enjoyed a strong resurgence in 2021 from the global recession of the previous year, with their macroeconomic strengths and competitive advantages as an investment destination asserting themselves in the recovery.

Estonia rebounded particularly impressively, seeing one of the highest GDP growth rates in Europe, at 8.5%, according to IMF figures, versus 4.5% in Latvia and 4.7% in Lithuania. In 2022, the region should sustain this momentum. Estonia is expected to grow at 4.2%, Latvia 5.2% and Lithuania 4.1%, against a predicted eurozone average of 4.3%.

All three countries are members of the EU, NATO and the eurozone, underpinning their political and economic stability and providing access to the world's largest market. Each benefit from an investment-grade credit rating, reaffirmed in 2021, and is in the top 20 countries in the world – and the top five in the EU – in the World Bank's Doing Business rankings, attesting to their governments' pro-business and pro-investment stance.

### Enviably fundamentals

Driven by these strong fundamentals, M&A activity in the Baltics accelerated in 2021, with 112 deals worth €2.3bn logged, up from 76 deals worth €1.2bn in 2020 – increases of 47% and 94%, respectively. This deal volume sets a new record, easily eclipsing any figure achieved over the time that Mergermarket has been monitoring the market. Meanwhile, aggregate deal value – which does not include transactions with undisclosed value – reached its second-highest level on record,

### Setting a high standard

"We have been very busy with all sorts of transactions, including several long-term deals that take several months to complete. Activity has taken place in a mix of sectors including renewable energy, telecoms, manufacturing and finance. We have an open market, and the PE and VC segments combined with the start-up scene are very vibrant. We expect a lot of transaction activity over the next couple of years."

*Raimonds Slaidiņš, senior partner, Ellex in Latvia*



### Capital pouring in

"The trends that first became visible in 2020 are continuing to affect the market today. There is excess cash in PE funds and increasing pressure to utilise it in new investments, and cheap funds are still pouring into the market. This has led to an increase in valuations of targets, which is provoking owners to use this opportunity to realise their investments."

*Rūta Armonė, partner, Ellex in Lithuania*



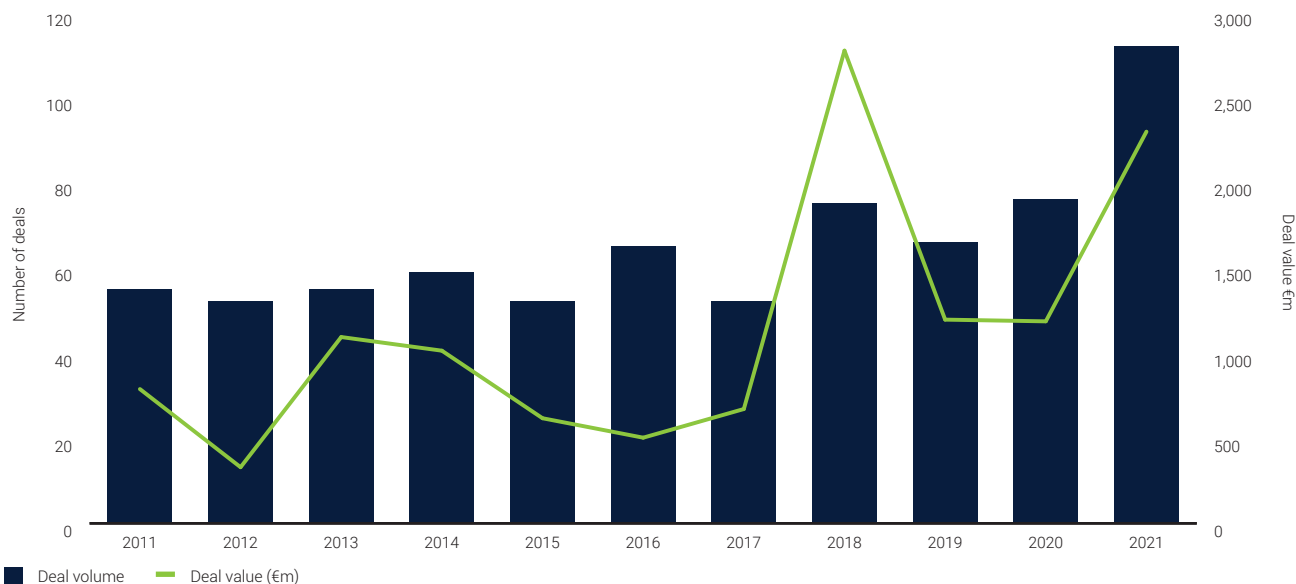
### Three new unicorns for Estonia in 2021

"Estonia further bolstered its renowned global position as a start-up nation with the highest number of unicorns per capita – the country witnessed the creation of three new unicorns in 2021, taking the number of Estonian unicorns to eight."

*Sven Papp, partner, Ellex in Estonia*



## Baltic M&A, 2011-2021

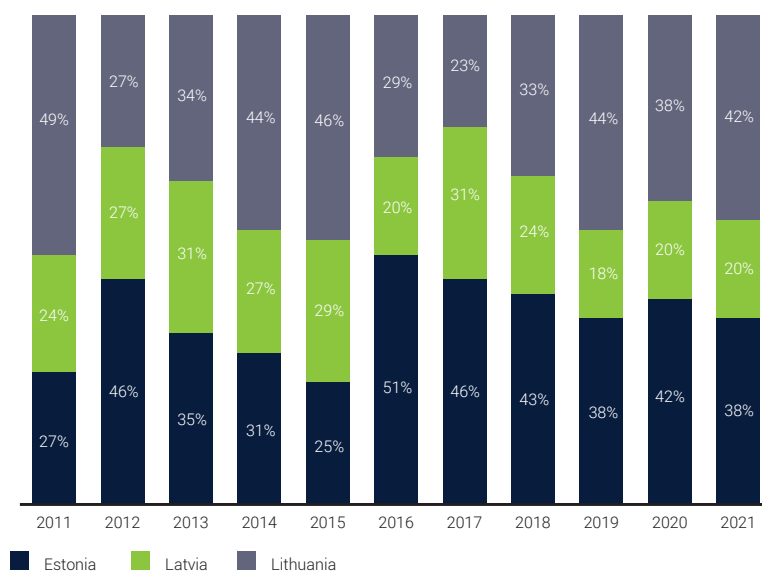


bested only by the bumper €2.8bn achieved in 2018. After the turmoil of the pandemic, the market has roared back into life, continuing a trend that started in H2 2020.

Overall declared deal value in 2021 was lifted by two major deals that accounted for more than half the total – the acquisition of district heating operator Gren Group by Partners Group, and a group of US-based investors taking a 15% stake in ride-hailing app developer Bolt. Combined, these deals were worth €1.4bn.

The outstanding market performance may partly be attributable to the post-pandemic conditions and the strength of global growth, as well as these bigger-ticket deals. Given the size of the regional market, we may not see multiple deals of the scale of Gren Group each year. Yet overall, there is no doubt that the fundamental conditions for dealmaking are excellent, and the outlook is bright.

## Baltic deal volume by country





## Top 10 Baltic M&A deals 2021

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value €(m)
12/03/2021	Gren Group	Energy, mining & utilities	Estonia, Lithuania, Latvia	Partners Group Holding AG	Switzerland	Fortum Oyj AB	Finland	800
02/08/2021	Bolt Technology OU (15% stake)	TMT	Estonia	Sequoia Capital; Naya Ventures; Tekne Capital Management LLC; G Squared; D1 Capital Partners L.P.; Ghisallo Master Fund General Partner LP	USA			600
12/05/2021	Vinted	TMT	Lithuania	EQT Partners AB; Accel; Insight Partners; Lightspeed Venture Partners; Burda Principal Investments GmbH & Co.; Sprints Capital Management Limited	Sweden			250
02/02/2021	Tallinna Vesi AS (35.3% stake)	Energy, mining & utilities	Estonia	City of Tallinn; Utilitas Energy Group	Estonia	United Utilities Group Plc	United Kingdom	143
24/05/2021	Printful	Industrials & chemicals	Latvia	Bregal Sagemount	USA			107
15/07/2021	Olainfarm AS (69.15% stake)	Pharma, medical & biotech	Latvia	AB City JSC	Latvia			90
12/04/2021	Veriff OU	TMT	Estonia	Accel; Institutional Venture Partners	USA			58
09/09/2021	Printify, Inc.	TMT	Latvia	Virgin Group Limited; H & M Hennes & Mauritz AB; Index Ventures; Taavet Hinrikus (Private Investor); Bob Young (Private Investor); Anthony Casalena (Private investor); Dreamers ; Mantas Mikuckas (Private Investor); Thomas Plantenga (Private Investor)	United Kingdom			38
31/03/2021	Pigu Group	TMT	Lithuania	Mid Europa Partners LLP	United Kingdom	MCI Capital S.A.	Poland	37
17/06/2021	Imatra Elekter AS (Electricity retail sales business)	Energy, mining & utilities	Estonia	Elektrum Eesti OU	Estonia	Imatra Elekter AS	Estonia	



### Inbound acquirers making big moves

Overall inbound M&A activity rose for the third consecutive year, accounting for 49% of all deals, up from 42% in 2020 and 38% in 2019. Reflecting the prevalence of international dealmakers, and especially PE players, 86% of total declared value in the Baltics came from inbound deals, a considerable increase on the 53% posted in 2020, and the highest level on record, edging ahead of the 84% share logged in 2017.

Of the 14% of publicly announced deal value generated by domestic transactions – around €330m in total – the lion's share came from three interregional transactions worth a combined €262m. These three deals – involving Tallinna Vesi, Olainfarm and Imatra Elekter – all ranked in the top 10 of the year regionally.

The remaining seven top-ranking transactions involved bidders from outside the region, with three from the US alone. Small though the regional market may be on a global scale, serious international investors are clearly infatuated with its dynamism and growth potential.

While these large deals with declared values show the Baltic states' strengths, they are only part of a broader regional M&A picture. Lithuania originated 42% of Baltic deals in 2021, up from 38% the previous year. Estonia accounted for 38%,

down from 42%, and Latvia 20%, on a par with 2020. Lithuania, the region's biggest economy, and Estonia, its wealthiest per capita, regularly alternate first and second place in regional dealmaking.

### Go-to investment destination

Zooming in on each country, Estonia tops the table in total value terms, with a record 42 deals worth €1.7bn, up from 32 deals worth €590m in 2020 – increases of 31% and almost 189%, respectively.

This made 2021 the second-best year for deal value on record, topped only by the exceptional €2.3bn achieved in 2018. Despite being the smallest of the countries by population, Estonia contributed to three of the four largest deals of 2021.

### Replete with repeat business

"We feel that there's a pipeline for our clients who have already made acquisitions in the region looking for add-ons. Some of the deals we've worked on are naturally going to lead to subsequent transactions in the next years."

*Filips Kļaviņš, senior partner,  
Ellex in Latvia*



Lithuania saw a 117% increase in deal value to €356m in 2021. Remarkably, given the post-pandemic boom, this is only the fifth-highest sum achieved over the past 11 years, and less than half the €887m logged in 2013.

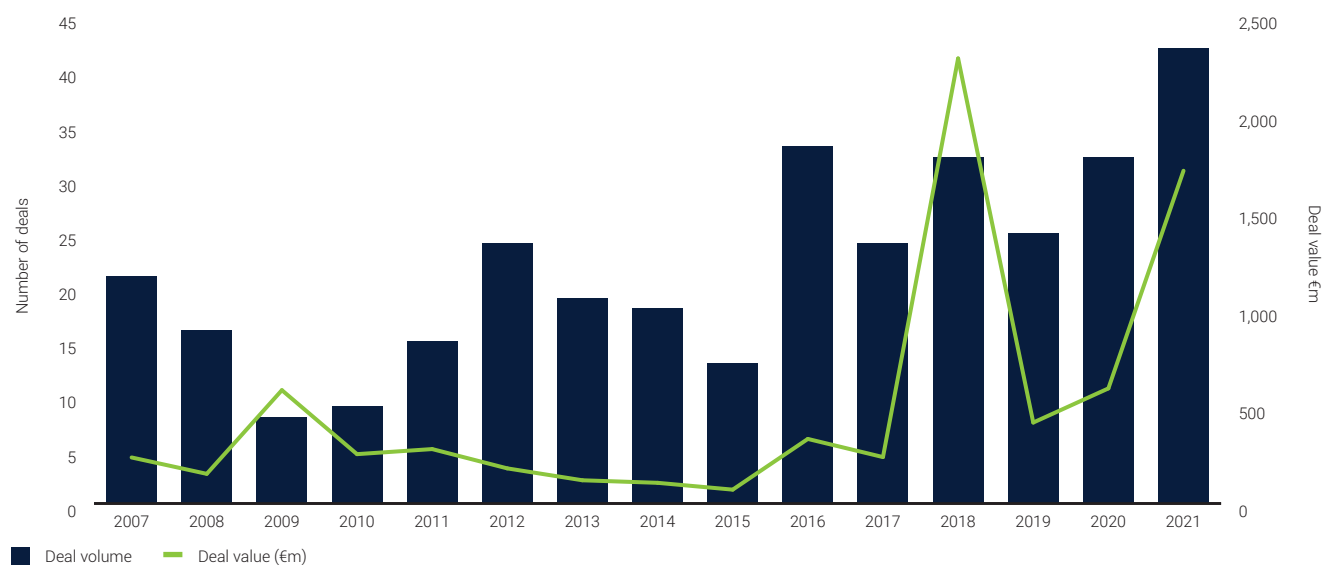
Nonetheless, the country did see a record 48 deals, up 66% from 29 in 2020, indicating lively activity. The biggest deal of the year in Lithuania saw investors led by Sweden's EQT invest €250m in second-hand-fashion platform Vinted – indicative of the innovative businesses developing in the country and indeed across the region.

Latvia achieved a 47% increase in deal volume, to 22 from 15 in 2020, although value slid 45% from €431m to €235m. This sum was concentrated in a handful of big deals, with Latvia contributing three of the top seven transactions regionally. The top deal was especially significant – a €107m investment from US-based PE fund Bregal Sagemount in on-demand printing and fulfilment company Printful, inaugurating it as the first Latvian unicorn.

The region's excellent M&A performance in 2021 is testament to its appeal as an international investment destination; somewhere with an attractive and secure business environment but higher levels of growth than in most developed markets. Once present in the Baltics, many investors look to expand their footprint there.

The post-pandemic boom may taper somewhat in the coming year, particularly with rising concerns over new variants. But with economic growth expected to continue to impress in 2022, and enduring strengths in sectors like technology joined by rising industries such as renewables and logistics, the Baltic M&A scene looks well-set for continued success.

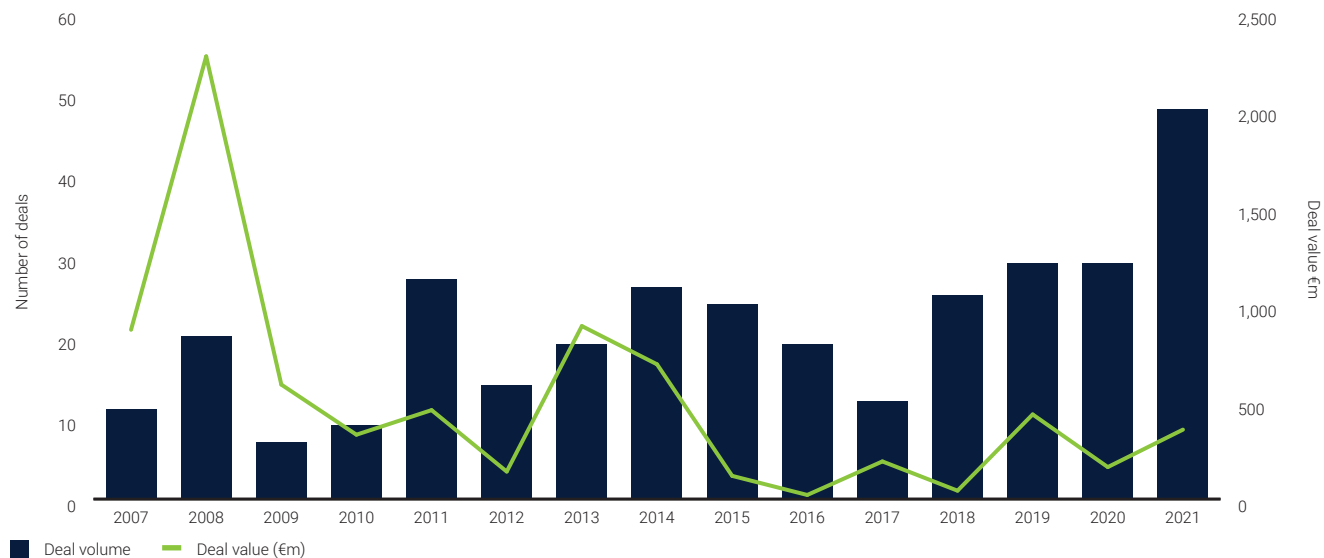
## Estonia M&A, 2007-2021



## Latvia M&A, 2007-2021



## Lithuania M&A, 2007-2021



# THE BALTICS IN THE EUROPEAN CONTEXT

Though less economically imposing than some of its neighbours, the region's reputation more than precedes itself on the world stage

Recovering from 2020's pandemic-induced economic slump, Europe overall saw a rise in M&A deal volumes in 2021, with 10,055 transactions, up 38% from 7,308 in 2020 – a smaller rise than the 47% seen in the Baltic region, but still very strong. Similarly, Europe overall saw a 66% rise in aggregate deal value from €709bn in 2020 to just under €1.2tn in 2021, though again this was not as pronounced as the 94% jump achieved in the Baltics.

The story is similar as concerns PE. Europe-wide PE deal volume rose 52%, logging 3,179 transactions, while aggregate value soared 76% to €530m. Yet the Baltics achieved even bigger rises, of 94% and 556%, respectively.

TMT leads the way in volume and value terms both in the Baltics and across Europe as a whole, as the industry continues to capitalise on digitalisation trends that the pandemic accelerated. Across the region there were 2,473 TMT deals announced worth more than €284bn in aggregate, easily outpacing the next most active sector, industrials & chemicals (1,754 deals worth over €193bn).

Restructuring in the telecoms subsector has been another key trend across the continent, with major transactions including American PE giant KKR's move to buy out Telecom Italia, a deal reportedly valued at more than €35bn. If successful, it will be the biggest PE buyout in European history.

The second-biggest European deal of 2021 was in the German property sector, where real estate company Vonovia acquired a 70% stake in rival Deutsche Wohnen for €24.7bn. The transaction creates a giant company with a portfolio of more than half a million apartments and could precipitate a wave of property-focused deals as investors look to counter rising inflation.

## European M&A, 2015-2021





### European private equity, 2015-2021



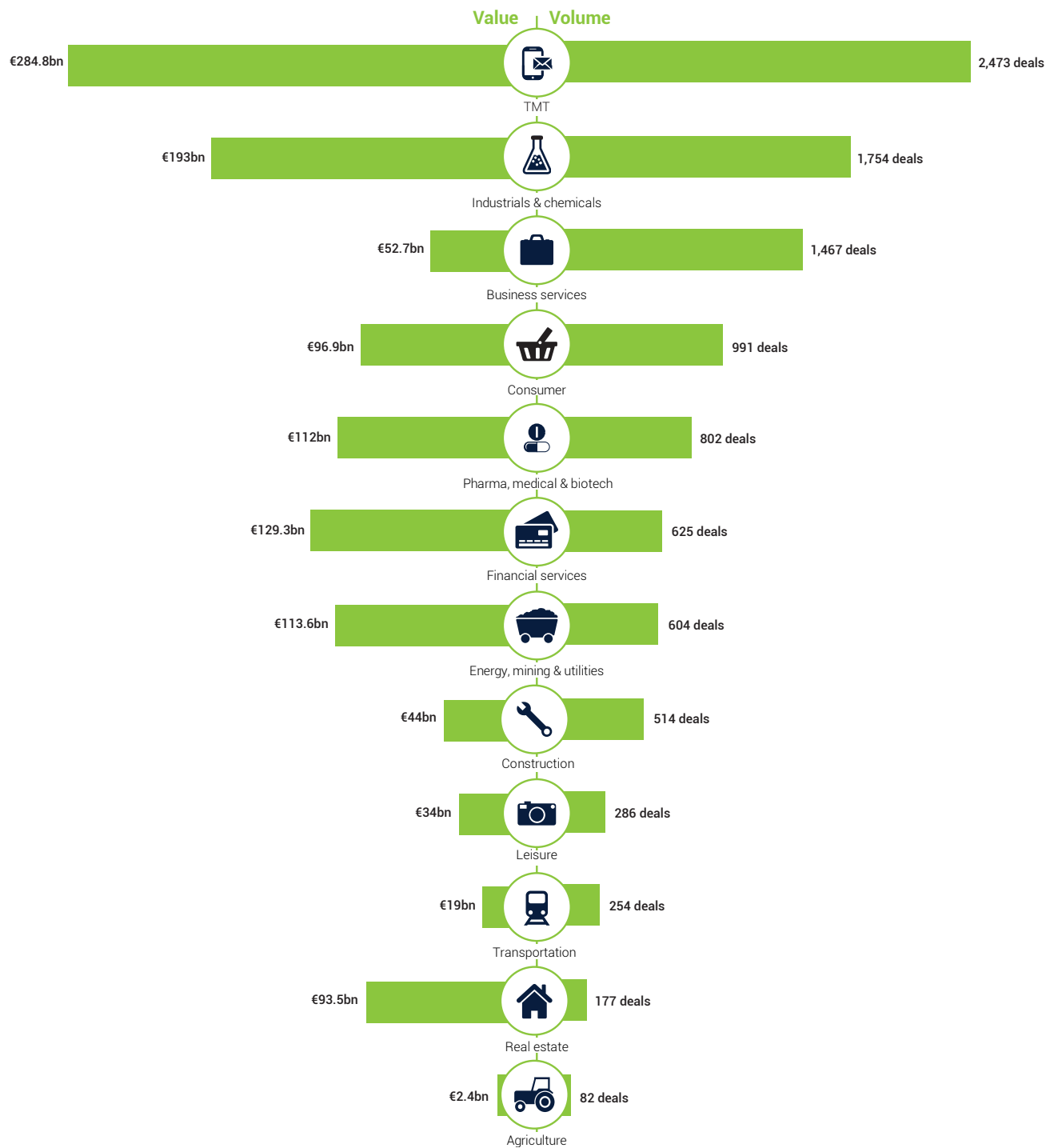
### Setting the pace for developed Europe

The Baltic M&A market can perhaps be best compared to that of the broader Central and Eastern Europe (CEE) region. CEE recorded year-on-year increases of 30% in deal volume (from 463 in 2020 to 603 in 2021) and 52% in aggregate deal value, from €29.8bn to €45.3bn. Again, the Baltic countries outperformed their peers.

Consequently, the Baltic states' share of CEE deal volume rose from 14% in 2020 to 16%, while their contribution to overall regional value grew marginally, from 4% to 5%. Both shares have been following a broadly upward trend since 2015, with some pandemic-related variance.

The region punches above its weight across CEE in a number of sectors. The Baltic countries recorded noteworthy year-on-year increases in

## European M&A volume and value by sector



their shares of total CEE deal volume in energy, mining & utilities (EMU) (from 7% in 2020 to 17%), TMT (13% to 20%), pharma, medical & biotech (7% to 15%) and real estate (11% to 16%). This spread of sectors, encompassing everything from primary production through high-tech manufacturing to services, is indicative of the Baltics' enviable economic diversification.

As in Europe as a whole and the Baltics specifically, TMT continues to lead the way in dealmaking in CEE, with 149 deals worth more than €15.1bn in total. Four of the top 10 deals originated in the sector, including the largest by some margin: the €6.6bn acquisition of Czech antivirus software developer Avast by American software company NortonLifeLock.

Other major deals included US-based Starwood Capital Group taking a 72% stake in Austrian real estate business CA Immobilien Anlagen, and German insurer Allianz acquiring British counterpart Aviva Group's business in Poland. The latter is the latest move in the consolidation of financial services across CEE; in the Baltic region, this trend is already well-advanced, particularly in banking.

The Baltic countries accounted for just one of the top 20 transactions across the broader CEE region, that being the Gren Group deal, but this understates their relative significance as magnets of investment, particularly in technology. Clearly the Baltic M&A market, while modestly sized, continues to grow stronger year by year, and is bouncing back from the 2020 recession with renewed vigour.

## Baltic v CEE M&A volume, 2015-2020



## Outpacing our European peers

"The business environment in the Baltics is becoming ever more stable, reliable and comparable to more mature Nordic and Western Europe markets, while the regional economy is simultaneously still growing faster than the rest of the Europe, and investments into the Baltics generate higher returns."

*Ramūnas Petravičius, partner, Ellex in Lithuania*



# SECTOR WATCH AND PRIVATE EQUITY

With a reputation for innovation in numerous fields, global PE players are now regularly knocking on Baltic companies' doors

The dynamic TMT space continues to be the biggest driver of M&A activity in the Baltics. Leveraging the region's highly educated workforce, conducive legislative environment, active government support and an ecosystem with a growing pool of capital, technology is arguably the Baltic states' number one calling card.

Thanks in part to these strengths, TMT contributed more than a quarter (28%) of all Baltic transactions in 2020/21, significantly more than the 16% logged in 2018/19. The sector also led the way in deal value terms, recording an even steeper increase – from 11% of overall declared value in 2018/19 to 45% in 2020/21, with the total topping €1.5bn. Overall value was significantly boosted by the €600m Bolt Technology deal, the largest TMT transaction and the second-largest deal overall in the Baltics in 2021.

The next most active sector was industrials & chemicals, which accounted for 15% of deals, up slightly from 13% in 2018/19, and benefitting from a long history of manufacturing and the region's location and access to markets across Eurasia. The sector's share of overall deal value rose from just 1% in 2018/19 to 8% in 2020/21 (for a total of €269m), buoyed by transactions such as the €107m acquisition of Printful by Bregal Sagemount, and the €98m purchase of Latvian fiberglass manufacturer Valmieras Stikla Skiedra by Warwick Capital Partners. The latter acquisition,

handled by Ellex, was particularly complex, involving aspects of insolvency and a delisting process, as well as M&A procedures.

Ranking third in deal volume was business services, with 10% of deals in 2020/21, down from its 13% share in 2018/19. The sector has flourished through the growth of local businesses as well as the mounting presence of international investors requiring support in the market.

## Digitalisation drive

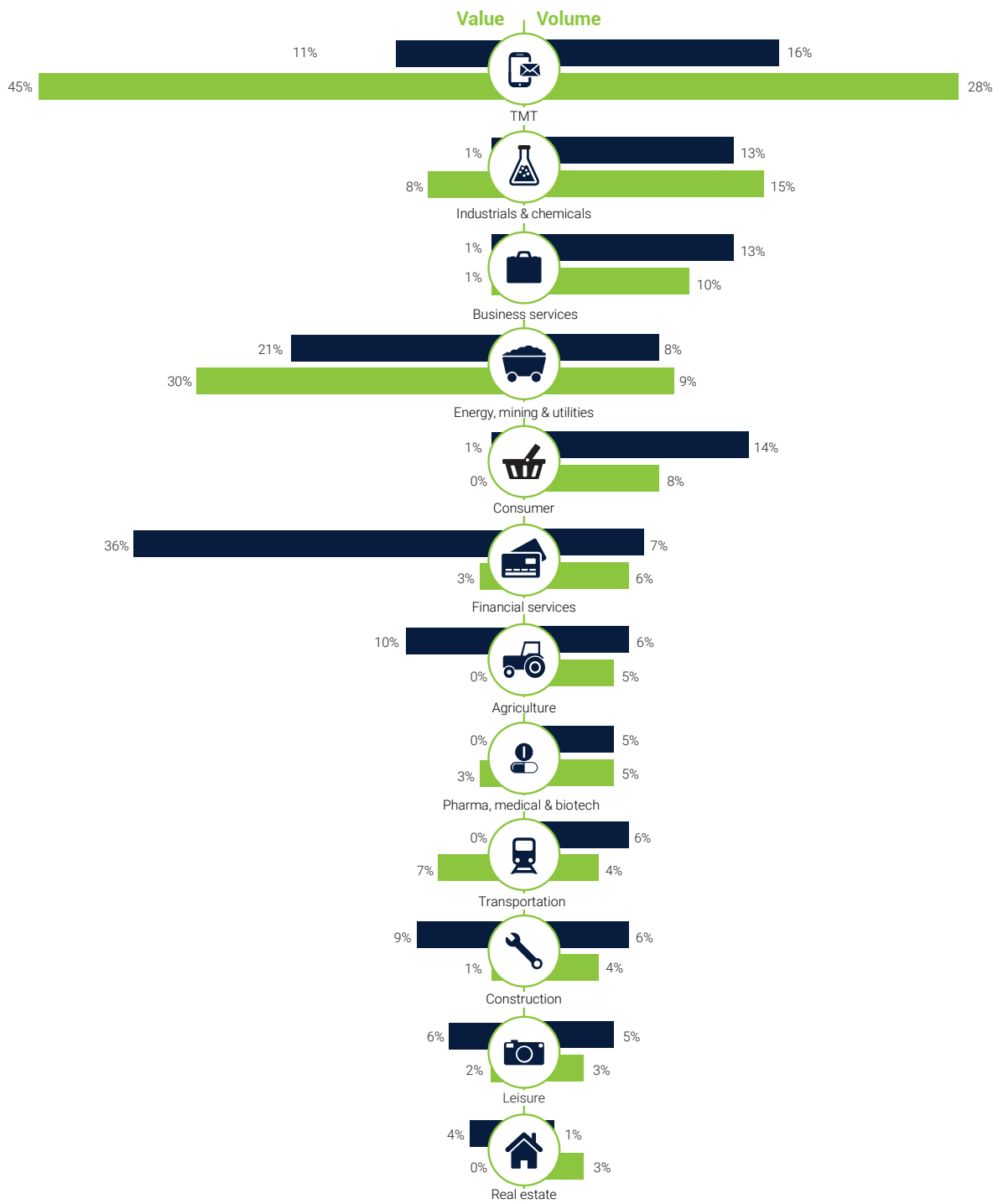
TMT contributed five of the top 10 deals in 2021, all of them involving international bidders, emblematic of the appeal of the region's innovative businesses to global investors. EMU was the next biggest hitter, with three of the top 10 Baltic deals.

The biggest transaction of 2021 saw Swiss PE firm Partners Group acquire Gren Group, the Baltic district heating business of Finland's Fortum Oyj. Gren Group uses fuel mostly from renewable and recycled sources, making it one of the region's leading green energy players.

The second-biggest deal saw Estonia-based ride-hailing and micro-mobility champion Bolt raise €600m in a Series E funding round led by Sequoia Capital. The deal values Bolt at more than €4bn, and brought in new investors including Tekne and Ghisallo, as well as existing backers G Squared, D1 Capital and Naya. Bolt is positioning itself as a

Baltic M&A volume and value by sector

2018-2019 2020-2021



'super app' for transport and deliveries and will use the funds to develop its swift delivery service, Bolt Market, and to accelerate the expansion of existing products.

Ranking third was another investment round, of €250m in Vinted. Swedish investors EQT see Vinted's business model as increasingly appealing at a time of growing consumer desire for sustainability and circularity and will support its growth into new markets while strengthening its position in core segments.

These deals underline the Baltics' strengths in technology, in which the region has built a global reputation. Estonia in particular has been a trailblazer in the sector since the 2003 foundation of IP leader Skype, which set the tone for the development of the country's IT sector.

This was followed by a wave of multinational technology companies establishing operations in the region, leveraging its highly skilled and multilingual workforce and relatively affordable cost base to deliver services and new products globally. The next phase has seen a groundswell of Baltic start-ups founded by ambitious entrepreneurs, with a huge level of success: Estonia alone has produced seven unicorns, and its technology ecosystem attracts talent from around the world. The country has a government-appointed Chief Information Officer, part of a broader infrastructure that is strongly supportive of innovation and business creation.

Estonia has the most prominent name in Baltic TMT, but Latvia and Lithuania are now not far behind, as deals like those for Vinted and Printify show.

### A green future

The EMU sector should also be a strong engine of growth in the medium term, driven by growing pressure for decarbonisation from the EU, national governments, shareholders and consumers.

The Gren Group deal exemplifies international investors' appetite for Baltic renewable assets,

### Safe space for start-ups

"Latvian legislation has really been bolstered to support start-ups. The introduction of different share classes is particularly important, and the use of employee stock options helps businesses keep skilled staff on board in a competitive environment."



*Filips Kļaviņš, senior partner, Ellex in Latvia*

### Smart money on specialisation

"People are now paying more attention to deep technology, in which Estonia is particularly strong. There may be some time before this feeds through into M&A activity, but the potential is there. We also expect more compartmentalisation and specialisation of technology business by both technology companies and investors into areas such as medtech."



*Sven Papp, partner, Ellex in Estonia*

### Reputation beyond our borders

"While sectors such as leisure and transportation were hit especially hard by the pandemic, TMT companies became a magnet for investors, reflecting the almost unlimited growth opportunities. Lithuanian TMT companies are not limited by the small Baltic market and are selling their goods and services worldwide."



*Paulius Gruodis, partner, Ellex in Lithuania*



which is only likely to increase as the EU Green Deal pushes forward with its pledge to mobilise €1 tn in sustainable investment over the next decade. The expansion of renewable capacity and longer-term investments in hydrogen, battery storage and other advanced technologies are likely to go hand in hand with consolidation in some mainstream segments, such as solar.

Across CEE, there has been a trend of government institutions and state-owned enterprises taking a more active role as investors. While the Baltics do not waver in their commitment to free markets and the private sector, state entities are also making strategic investments. A case in point is the fourth-largest regional deal of the year, which saw the City of Tallinn and Utilitas Energy Group acquire the 35% stake held by United Utilities Tallinn in Tallinna Vesi, the largest water utility in Estonia. The deal gives the City of Tallinn a 52% stake in the business, restoring its strategic position in a vital

### Innovative solutions for a green economy

"Everybody now understands that new solutions in energy, and energy and heat distribution, need to be found. Capital is supporting this through M&A and investments, backing companies seen as going in the right direction, and offering innovative and greener solutions. People want to be part of the change, and not get left behind. It's a coherent trend in our region, and globally. Tackling climate change involves capital, and so the sector will be hot for many, many years to come."

*Risto Vahimets, partner, Ellex in Estonia*



service provider, with the investment also aimed at providing long-term returns for the city.

Other sectors that are showing promise for 2022 and beyond include real estate, which is a natural hedge for investors looking to take a defensive

stance against inflation. The sector has not been hugely active in M&A terms in recent years, though there have been considerable investments in development. With the office and retail segments under strain from COVID-19, residential property is likely to attract more attention.

Similarly in light of the pandemic, logistics is of increasing importance due to the rise of e-commerce and potential 'nearshoring' in Europe, as well as the need to address current challenges in global supply chains. Combined with long-awaited regional transport developments such as Baltic Rail, opportunities are likely to increase.

### PE players, at home and abroad

PE will play a major role in this process. The growth of PE has been one of the defining trends of global investment over the past decade, as money has flooded into funds and investors have sought higher yields. CEE has benefitted from this trend, with its attractive risk profile, higher growth rates than most developed markets and growing number of targets of PE scale. VC has also been boosted by EU funds and a growing number of active international and regional investors. As in other fields, the Baltic states have been at the forefront of this movement.

The number of PE deals in the Baltics rose 94% to 35 in 2021 from 18 in 2020, reflecting this increasing appetite from alternative investment players – the total value of PE deals soared to €1.97bn from €301m the previous year. This exceeded the previous peak of 18 deals worth €1.4bn recorded in 2018. The three largest deals announced in the Baltics in 2021 all involved PE firms, as did three other top-10 transactions. Meanwhile, the eighth largest deal of the year, the €38m financing round for Printify, involved a group of international VC funds and private investors.

The region's appeal to PE players has been apparent for some years, underscored by 2018's €1bn deal led by US giant Blackstone to take a majority stake in Baltic bank Luminor. The transaction was the largest majority stake

acquisition of a universal bank by PE in 10 years, and thus a groundbreaker not just for the Baltics, but for PE worldwide. Four years on from the Luminor deal, VC and PE in the region are livelier than ever, and the scope for dealmaking has broadened further.

### Breaking records on bourses

Another clear trend is a surge of initial public offerings (IPOs), particularly by Estonian companies. Major listings include that of Enefit Green, the largest wind energy producer in the Baltics, and part of Eesti Energia, Estonia's largest state-owned company, in October 2021. The IPO, on the Nasdaq Tallinn Stock Exchange, was designed to raise €100m for new wind and solar parks to accelerate the country's energy transition and exemplifies the synergies between public policy goals and the private sector-driven stock market. Enefit Green intends to more than double its renewable energy capacity to 1,100MW by 2025 – an ambitious goal for which it aims to raise €600m in financing in 2021-23, indicating further opportunities for investors.

The Enefit Green listing was four times oversubscribed, with a record 60,000 retail investors participating, a sign of the enthusiasm for public equity among the population as a whole. This trend has been boosted by reforms in early 2021 that allowed Estonians to withdraw savings from their pension fund before retirement – resulting in €1.3bn being taken out. The country's technology boom has also had an impact, with an increasing

### Fortifying links in world supply chains

"Clever capital will try to address supply chain issues through dealmaking and other opportunities. Investors will be looking to merge entities with good synergies to tackle supply chains and adapt them to meet global challenges."

*Risto Vahimets, partner,  
Ellex in Estonia*



number of high-net-worth individuals seeking opportunities to invest in more liquid instruments.

Other significant Estonian IPOs included that of text message marketing software developer TextMagic to raise €2.5m; real estate developer Hepsor, which raised €10m in an offering nearly nine times oversubscribed; and Modera, an automotive software company, which raised €2m.

Meanwhile in November 2021 Latvia saw the record-breaking IPO of its largest fuel trader, Virsi, bringing in nearly 10,000 new investors from across the region and raising €7.8m.

Going beyond the regionally focused bourses, in July 2021, Estonia's third unicorn, fintech company Wise, became the first company in the history of the London Stock Exchange to use a direct listing to go public on the exchange – allowing share trading without the company immediately raising funds. The move valued Wise at \$11 bn, making it the most valuable technology company ever to join the exchange.

## Alternative investors on the ascent

"There's a very active venture capital association here in Latvia, looking to develop the sector. Local and regional funds are particularly active in deals worth €20m–25m. Then we have big international players here like Blackstone, looking for big deals of €50m-plus. Energy is a particularly hot area for alternative investors."



*Raimonds Slaidiņš, senior partner, Ellex in Latvia*

## Fruits of regulatory labours

"Lithuania's persistent efforts in creating a friendly environment for start-ups are starting to pay-off – local technology companies are becoming big enough to draw attention from international PE bidders, which is creating more of an appetite for large-scale deals."



*Rūta Armonė, partner, Ellex in Lithuania*

## Baltic Private Equity, 2011–2021



# BALTIC OUTLOOK 2022

While the macroeconomic climate is far from risk-free, discerning dealmakers will find a lot to like in the Baltics

After a record year for M&A in 2021, dealmakers in the Baltics can look ahead to 2022 with self-assurance. GDP growth is expected to top 4% in all three countries, and their macroeconomic stability has been given votes of confidence by ratings agencies, international financial institutions and investors.

The Baltic countries offer a rare combination – they are within the EU and eurozone, offering stability and regulatory consistency, yet with consistently higher growth than most developed markets. While GDP per capita already exceeds that of some long-established EU member states, the scope for growth is considerable.

The three countries have a strong track record of pro-business reform and their investment environments are regarded as among the very best in the world. Successive governments of varying political leanings have maintained this approach and welcome international investment.

Unsurprisingly, the region's vibrant TMT sector continues to attract the most interest. Mergermarket tracked 50 'company for sale' stories in the Baltic market between the start of July and the end of December 2021. Of these, 20 (40%) related to TMT companies. Financial services ranked second, with seven such stories (14%), and Business services and Industrial & Chemicals third with six (12%). The Baltics' strengths in technology are now known globally, while financial services firms across the CEE region are consolidating.

## Baltics heat chart

Sector	Volume
TMT	20
Financial Services	7
Business Services	6
Industrials & Chemicals	6
Energy, Mining & Utilities	4
Consumer	3
Real Estate	1
Construction	1
Transportation	1
Pharma, Medical & Biotech	1

Companies for sale stories tracked by Mergermarket  
01/07/2021 to 31/12/2021

Interest in energy has been boosted by the strong growth of renewables, as well as efforts to integrate regional energy networks, and the EMU sector looks set to be a major locus of activity for years to come.

Another area likely to attract attention is real estate. While commercial and retail properties have come under strain during the pandemic,

the residential segment remains a solid wager at a time of rising incomes and higher inflation, while the boom in e-commerce and the disruption caused by the pandemic are propelling investment in logistics.

PE goes from strength to strength, powered by both local funds and major international players, which made many of 2021's top deals and are seeking further transactions in the region. A budding VC scene goes hand in hand with the exceptional ecosystem for start-ups.

This generation of PE and VC investors will in time be looking for exits, and the blossoming of IPOs, particularly on the First North market, should be sustained by policymakers and a growing pool of retail investors.

Inflation became a major concern globally in the closing months of 2021. The IMF expects consumer prices in the region to rise by between 2.6% (Latvia) and 3.8% (Estonia). While being in the eurozone brings many benefits, as members the Baltic states have limited monetary policy tools to curtail inflation. Experts say that deals that aim to keep funds safe from inflation will be bigger and more visible in 2022.

Downside risks are clear, with the most prominent besides inflation being the worrying new wave of COVID-19 infections through the Omicron variant, which has led to new restrictions across Europe. Tensions between Russia and Ukraine also loom large; while the impact on 2021 dealmaking was minimal, any escalation could shake investor confidence. On the macroeconomic level, the difficulties in China's property market and the potential for new US–Beijing strains could affect investor sentiment.

Recent years have shown how well the Baltic region weathers adversity, however, and how quickly it bounces back from global downturns. Fundamentally, these remain exceptional markets in which to invest.

## Heeding central bank interventions

"If central banks raise interest rates to fight inflation and government stop granting subsidies to the businesses most affected by the pandemic, we might see a new trend towards more distressed asset acquisitions provoked by solvency problems."

*Paulius Gruodis, partner, Ellex in Lithuania*



## Capital rich conditions

"There is a lot of capital out there looking for good investments, as well as corporates looking to take on strategic acquisitions."

*Raimonds Slaidiņš, senior partner, Ellex in Latvia*



## Learning to live with the pandemic

"Businesses are now generally well adapted to living with the pandemic and various restrictions, so we do not expect any major downshift in M&A in the near future related to those concerns. In fact, we think Lithuania's M&A market could reach new heights in 2022."

*Rūta Armonė, partner, Ellex in Lithuania*



## Risks to manage in 2022

"Baltic economies face the same risks as the whole of Europe: (a) disruptions in production and logistics due to continuing COVID restrictions; (b) significant production cost increases due to skyrocketing energy prices; (c) war-mongering threats from Russia towards Ukraine, NATO, etc. and (d) an increase of protectionistic measures from individual countries by tightening regulatory restrictions, etc. to cope with the aforementioned factors."

*Sven Papp, 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<sup>®</sup>  
Raidla**  
Estonia

**Ellex<sup>®</sup>  
Klavins**  
Latvia

**Ellex<sup>®</sup>  
Valiunas**  
Lithuania



## Market position

- The largest law firm and market leader in the Baltics with 200+ lawyers with top competences, including 43 partners in the Baltics, working in an integrated manner in specialised teams across all business sectors.
- 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.
- Ranked as No 1 in the Baltic states by Kantar Sifo Prospera Tier 1 Law Firm review 2021.
- Top international transaction practice in the Baltics by deal count in Eastern Europe, Bloomberg 2021.
- Top Tier1 rankings in Corporate and M&A by Legal 500 and IFLR 1000.

## Top news

- At the end of 2021, Ellex received the prestigious Baltic Law Firm of the Year Award by The Lawyer European Awards.
- Recognized as the Baltic-wide Law Firm of the Year 2021 at the Chambers Europe awards.
- Who's Who Legal awarded Ellex as Law Firm of the Year 2021 in the Baltics.
- 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.

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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 number of deals on which we have advised.

Further information [ellex.legal](https://ellex.legal)

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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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