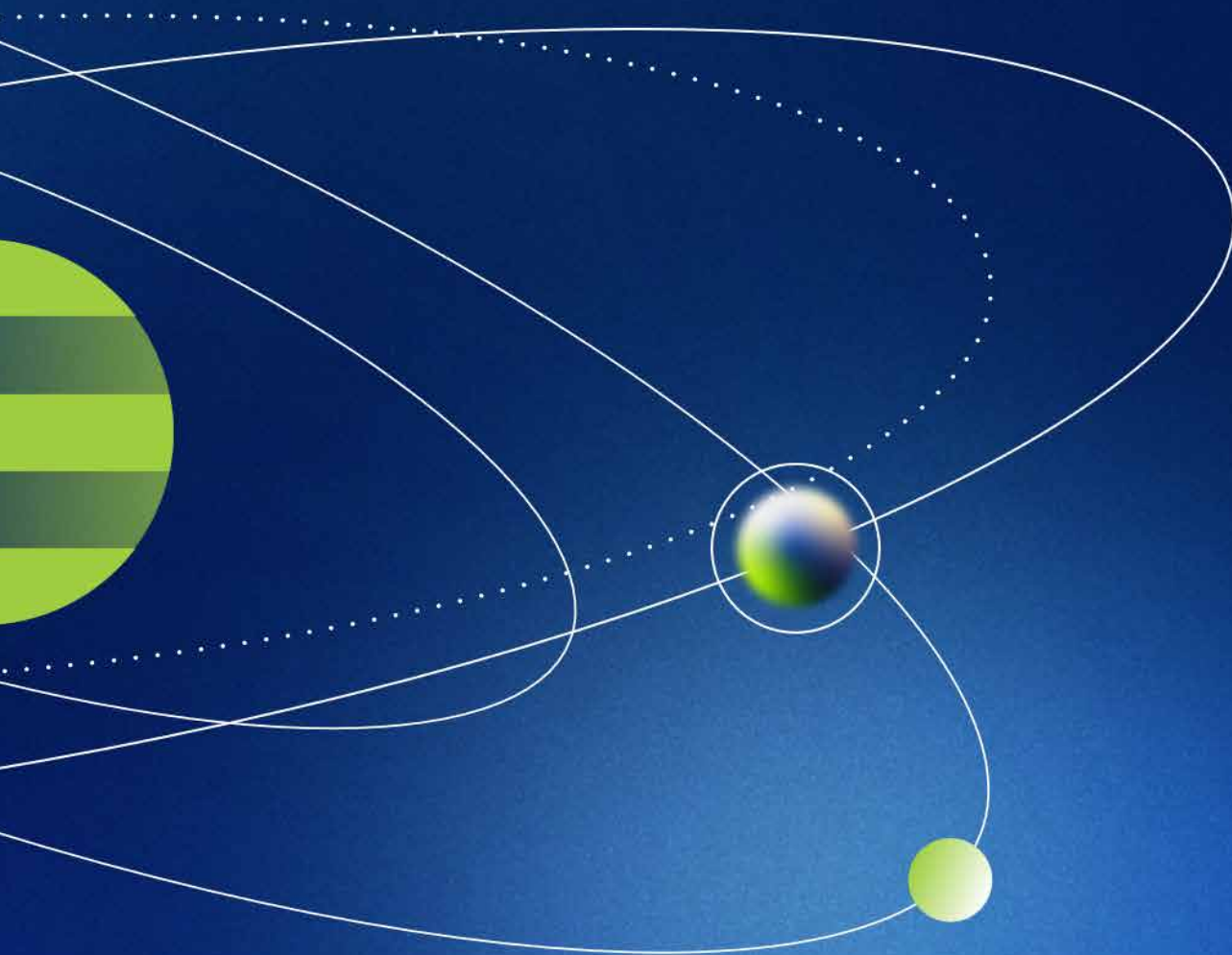


# Ellex<sup>®</sup>

## BALTIC M&A MONITOR 2023



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# FOREWORD

Welcome to the 2023 edition of our Baltic M&A Monitor, a comprehensive review of dealmaking in the region published by Ellex, in association with Mergermarket. The report examines M&A trends in the Baltic countries – Estonia, Latvia and Lithuania – including insights into key sectors and forecasts for 2023.

The region saw one of its most successful years on record for M&A in 2022, despite the external shocks created by Russia's invasion of Ukraine and the subsequent surge in global inflation and rising interest rates. A total of 117 deals worth a publicly-declared €2.2bn in aggregate were executed. These totals represent drops of 19% and 7%, respectively, from the 144 deals worth €2.4bn logged in 2021 – but that year was an unusual exception, given the boom in post-pandemic transactions, which was always likely to taper down. In light of the geopolitical and macroeconomic context, recording the second-highest deal volume and third-highest aggregate value over the past decade is unquestionably impressive.

The Baltic economies trade on a variety of enviable competitive advantages. They are very open following rapid liberalisation in the 1990s and ongoing reform; they have a highly-skilled workforce; their governments work closely with investors to promote a world-class business climate; and they remain very politically and economically stable, underpinned by European Union (EU) and eurozone membership. As a result, they attract a substantial amount of foreign investment.

The growth of private equity (PE) and venture capital (VC) has been another major feature of Baltic M&A, and in 2022 six of the 10 largest deals, including the two biggest, involved a PE or VC fund as a bidder. Major international funds have been

present for some time and are now joined by a lively home-grown sector, bolstered by regional entrepreneurs who have exited previous investments.

The two biggest deals of the year offer a window on the region as a whole. The largest saw Estonian mobility-as-a-service provider Bolt Technologies raise €628m from a consortium of investors including the US's Sequoia Capital. The second biggest deal saw Blackstone Group, another major US fund, increase its stake in leading Lithuanian bank Nord/LB for €329m. The transaction follows on from Blackstone's landmark €1bn acquisition of a majority share in regional bank Luminor, which was announced in 2018.

The Bolt transaction underlines the importance of the technology, media & telecommunications (TMT) sector to dealmaking and broader economic growth in the region. The industry accounted for more than half of aggregate deal value and a third of volume in the Baltics in 2021/22. Since the advent of Estonia-developed Skype in the late 1990s, the Baltic countries have become world leaders in technology, with Estonia having the highest number of start-ups per capita by several measures.

Overall, despite global headwinds, the Baltic M&A sector continues to flourish, and is reaching a level of maturity that is likely to see both domestic and international transactions continue to move forward in 2023 and well beyond. As ever, we welcome feedback from readers, and hope you find this report both engaging and enlightening.

# M&A OVERVIEW 2022

Though certainly a tumultuous time geopolitically and economically, 2022 was a year of many successes for the always-popular Baltic M&A market

A total of 117 M&A transactions worth €2.2bn in aggregate were announced in the Baltics in 2022. Though down from the 144 deals worth €2.4bn logged in 2021 – the best year on record for M&A in the region, and a rather anomalous one – these figures represent, respectively, the second-highest deal volume and third-highest aggregate value in the past decade.

The market performed remarkably well in 2022 in a challenging dealmaking context – retreating from the post-pandemic M&A boom, when pent-up demand drove up volumes, and with Russia launching its invasion of Ukraine in February 2022. All three Baltic countries border Russia, are ex-Soviet states, and have been seen as potential targets for Moscow. Like much of the rest of the world, the Baltics have also been affected by soaring inflation in the wake of the invasion, as well as a broader risk-off sentiment and cooling growth due to the geopolitical and macroeconomic headwinds.

In its most recent World Economic Outlook, published in October 2022, the International Monetary Fund (IMF) forecast that Estonia's economy would grow by 1% over 2022, Latvia's by 2.5% and Lithuania's by 1.8%. This compares to growth of 8%, 4.5%, and 5%, respectively, in 2021. These relatively small, open economies have thrived in recent decades thanks to assiduous reform, the benefits of EU and eurozone membership and core competitive advantages. But they are not invulnerable to global economic tempests – particularly those driven by conflict in Europe.

## Holding fast in hard times

"The year started phenomenally well, continuing the trend from 2021. Then the invasion of Ukraine happened, and a lot of deals stopped; it was a scary time. Then Ukraine started moving in a positive direction and, from early June, we've been safer. Investors' concerns are largely macroeconomic, relating to inflation and the economic downturn, as they are in the rest of Europe. Things have been slower than 2021 – a record year – with investors anticipating lower valuations in the coming period. But overall, 2022 was not a bad year at all."

*Risto Vahimets, partner and head of transactions, Ellex in Estonia*



## Driven to transact

"The business community is very M&A-driven. It looks to M&A as the fuel; if you can develop a project and do M&A, you can direct those funds to the next project. For example, in renewable energy transactions, we have very positive prospects for the next five years."

*Ramūnas Petravičius, partner and co-head of Corporate and M&A practice, Ellex in Lithuania*



## Baltic M&A, 2012-2022

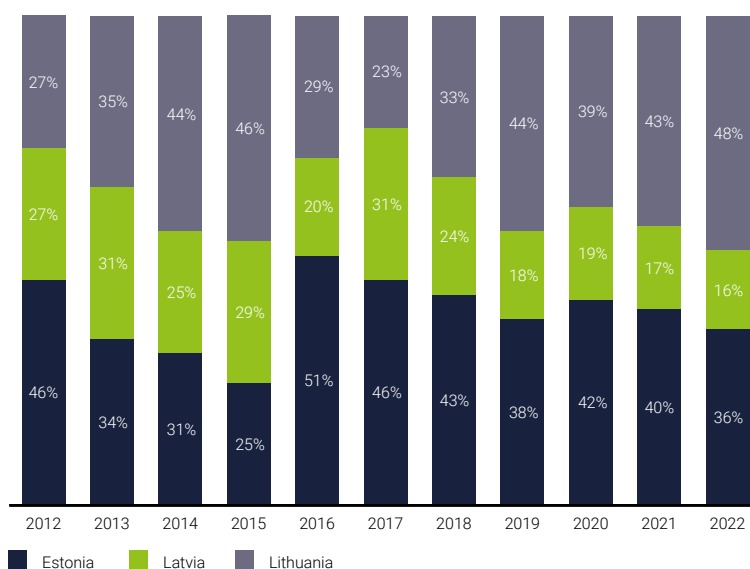


Consumer price inflation remained at elevated levels across the Baltics in 2022, with IMF projections showing annualised increases of 21% in Estonia, 16.5% in Latvia and 17.6% in Lithuania. The October forecasts pointed to inflation remaining high in 2023, at 9.5% in Estonia, 8% in Latvia and 8.4% in Lithuania. That said, these figures could be revised downwards in the near future given that energy prices began to decline considerably in the last couple of months of 2022.

### On the international radar

As in previous years, the bulk of aggregate declared deal value was contributed by a small number of big-ticket transactions. It is worth noting that Mergermarket's M&A value figures only take into account deals with publicly-declared values – many significant deals take place without the value being announced. They are, however, counted in deal volumes when they exceed €5m.

## Baltic deal volume by country, 2012-2022



## Top 10 Baltic M&A deals 2022

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value €(m)
11/01/2022	Bolt Technology OU (8.48% stake)	TMT	Estonia	Sequoia Capital; Fidelity Management & Research Company LLC; Whale Rock Capital Management LLC; Tekne Capital Management LLC; Owl Rock Capital Advisors LLC; G Squared; D1 Capital Partners L.P.; Ghisallo Master Fund General Partner LP	USA			628
01/09/2022	Nord/LB Lietuva (11.6% stake)	Financial services	Lithuania	Blackstone Group Inc	USA	Nordea AB	Finland	329
29/12/2022	300 MWp portfolio of solar projects (100% stake)	Energy, mining & utilities	Latvia	AB Ignitis Grupe	Lithuania			213
13/10/2022	Sunly	Energy, mining & utilities	Estonia	BPCE Group; Mirova SA; Existing Shareholders	France			200
07/04/2022	Nordsec Ltd (6.25% stake)	TMT	Lithuania	General Catalyst; BaltCap; Novator Partners LLP; Burda Principal Investments GmbH & Co.; Matthew Mullenweg (Private Investor); Ilkka Paananen (Private Investor); Mikki Kuusi (Private Investor)	Lithuania			92
13/12/2022	HKScan Estonia AS (100% stake); HKScan Latvia AS (100% stake); HKScan Lietuva UAB (100% stake)	Business services	Estonia	AS Maag Grupp	Estonia	HKScan Corporation	Finland	90
26/01/2022	Veriff OU (6.67% stake)	TMT	Estonia	Accel; Institutional Venture Partners; Tiger Global Management, LLC; Alkeon Capital Management, LLC	USA			89
03/05/2022	Kevin.	TMT	Lithuania	Eurazeo SA; Accel; Open Ocean Capital; Speedinvest GmbH; OTB Ventures; Global PayTech Ventures	USA			62
23/08/2022	Ready Player Me	TMT	Estonia	Andreessen Horowitz LLC; Riccardo Zacconi (Private Investor); Justin Kan (Private Investor); Sebastian Knutsson (Private Investor); Konvoy Ventures; Collab+Currency; HartBeat Ventures LLC; David Baszucki (Private Investor)	USA			56
05/07/2022	NanoAvionics UAB (77% stake)	TMT	Lithuania	Kongsberg Gruppen ASA; Kongsberg Defence & Aerospace AS	Norway	AST SpaceMobile Inc	USA	49

Taken together, the two largest deals in the Baltics – the fund-raising round by ride-hailing app developer Bolt Technology, and the sale of a stake in Lithuanian bank Nord/LB Lietuva – accounted for more than two-fifths of the total (€957m combined).

Of the 117 deals announced in the Baltics in 2022, 59% (69) came in H1, reflecting both the completion of transactions lined up during the 2021 boom, and growing macroeconomic pressures in the latter half of the year.

In 2022, 53% of all deals announced in the Baltics were domestic, up one percentage point compared to the year before. Domestic deals have outnumbered inbound transactions in each of the last four years. While foreign investors see growing opportunities in the region – as the Bolt and Nord/LB Lietuva transactions indicate – there is strong appetite from local buyers, including corporates as well as a growing pool of PE, VC and family offices. Moreover, although many local transactions fall below the €5m-minimum required to be captured





in Mergermarket's figures, they remain meaningful for the local M&A market – evincing regional businesses' appetite for dealmaking and creating a pipeline for larger transactions later on.

Nonetheless, inbound deals contributed the lion's share of aggregate value in the Baltics in 2022 – 78%, down slightly from 85% in 2021. Between 2012-22, inbound deals contributed an average 63% of total declared value, and only in 2012-14 did aggregate domestic transaction value outweigh that of inbound deals. The Baltic region is solidly on international dealmakers' radars after three decades of strong economic growth, rapid pro-business reform and the emergence of world-leading companies from the region, particularly in the technology sector.

Seven of the region's 10 biggest deals in 2022 saw investors from elsewhere in the world make bids for Baltic targets – five of the seven, including the two largest, involved US bidders. That leading businesses and funds from the world's largest economy are so active in these relatively small and geographically distant economies underlines the quality of the targets available and the strength of the Baltic investment environment.

## International appeal

"The proportion of foreign investors in the market is a very good sign – we're able to reach them and convince them that the environment is safe. Geopolitically, we are stable. We can take the leading position in the European technology sector. I think we will achieve very, very good work over the next five, 10 years."



*Rūta Armonė, partner and co-head of Corporate and M&A practice, Ellex in Lithuania*

## Cross-border relationships

"Historically, when Nordic and Scandinavian investors have entered the Baltic market, they have had the strongest connections in Estonia, so have based regional operations here."



*Ermo Kosk, partner, Ellex in Estonia*

With the dollar relatively strong – if off from its mid-2022 highs – and US acquirers' long-running interest in high-quality technology assets beyond their own borders, it seems likely that Baltic companies will continue to attract the attention of international bidders, even in the face of broader macroeconomic and geopolitical disquiet.

While foreign investment has been running high in the Baltics, the local capital has not been idle. Estonia witnessed a major industrial deal in December 2022, when Maag, the country's largest milk and meat processing group, signed a deal to acquire the Estonian, Latvian and Lithuanian operations of HKScan, one of the largest Finnish meat and poultry groups, for €90m.

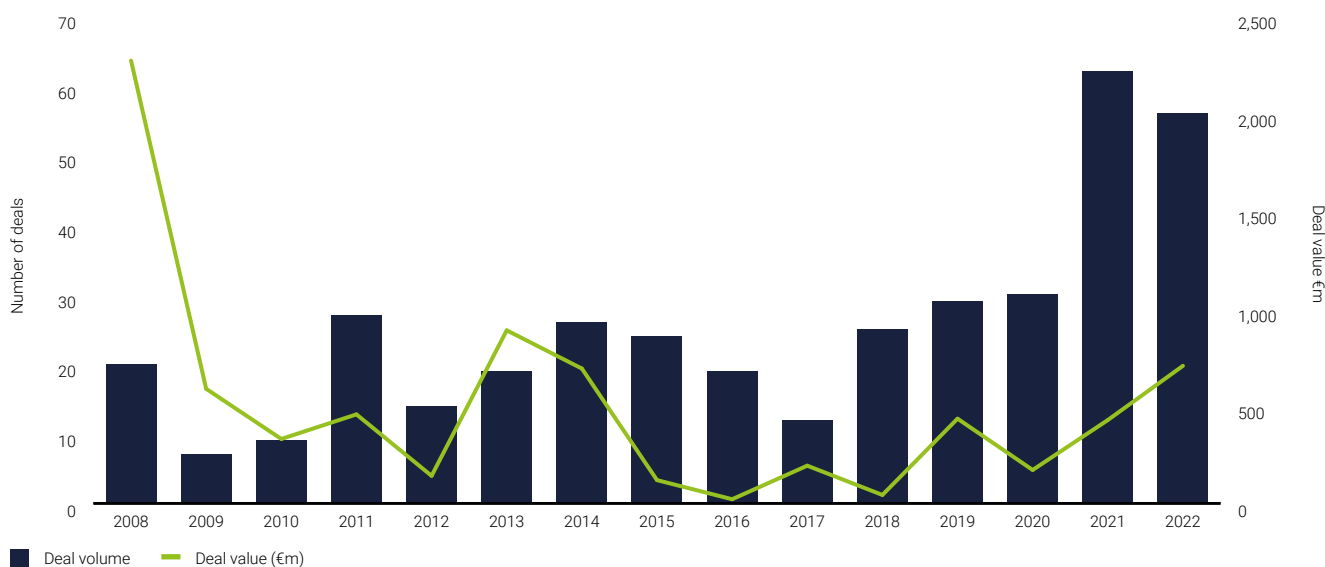
## Bold local industrial investment

"While foreign investors and local PE have continued, as expected, to be very active in the region, it was encouraging to see a bold investment by Estonia's largest food processing group in acquiring the Baltic companies of Finland's HKScan. This is definitely a landmark deal for its €90m price as well as the boldness on Maag's part to swim against the current and make a really sizable investment in a rather grim economic environment of increasing energy prices, interest rates and production costs in general. And it is always a moment of national pride and joy when local capital is buying back one of the country's crown jewels."



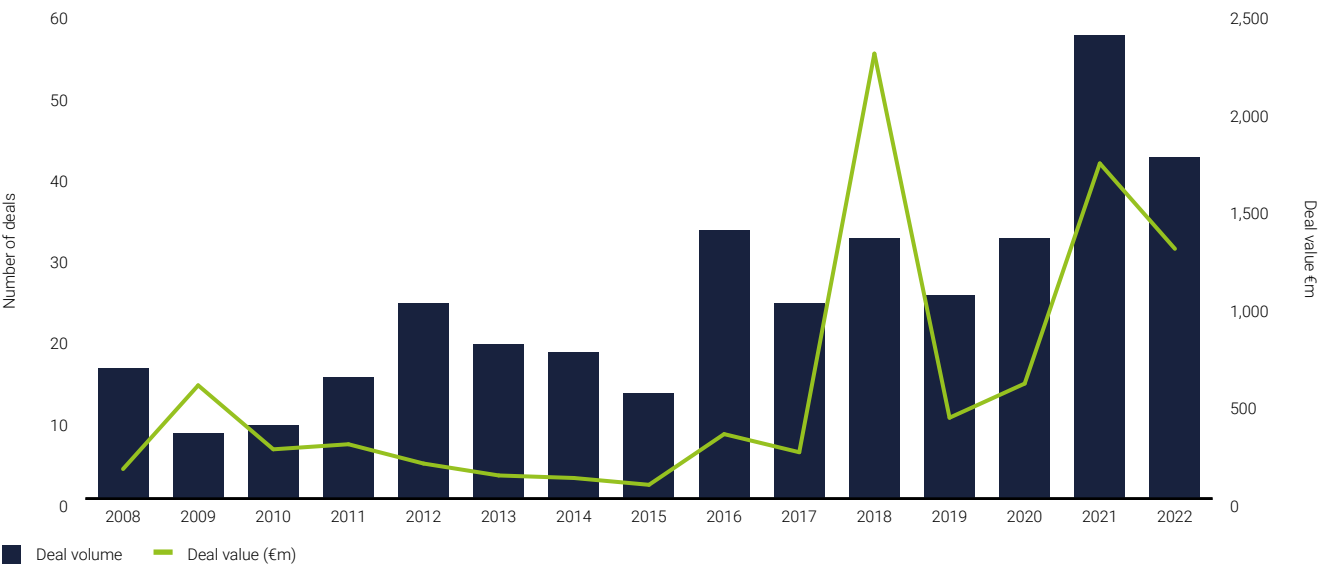
*Sven Papp, partner and co-head of transactions, Ellex in Estonia*

## Lithuania M&A, 2008-2022

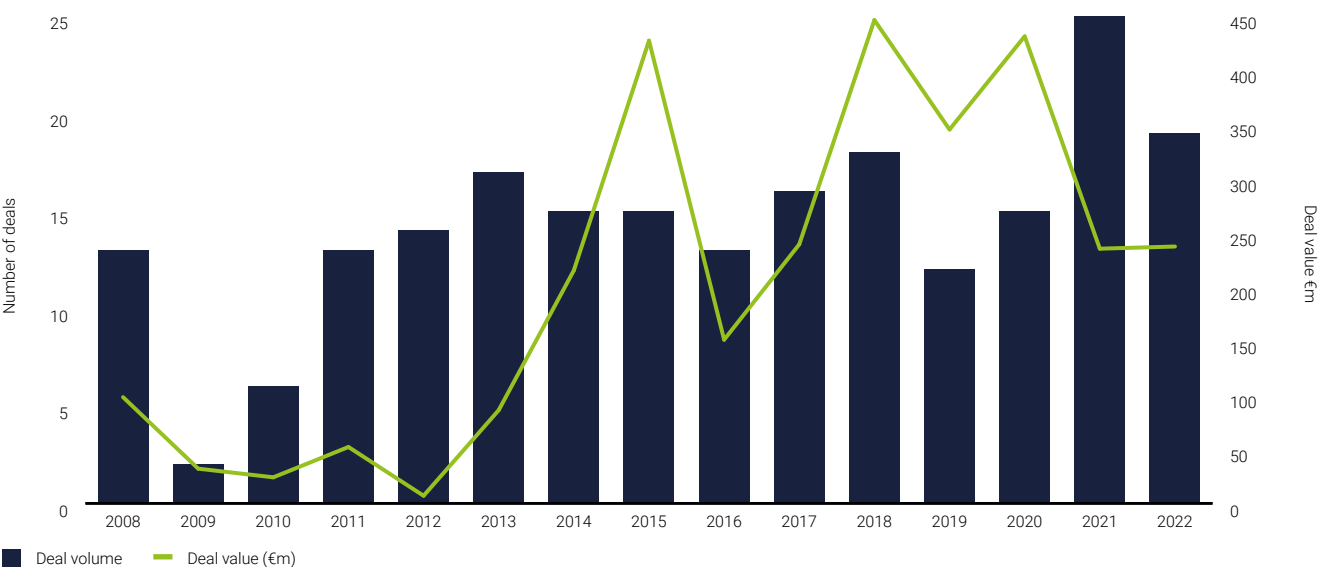




Estonia M&A, 2008-2022



Latvia M&A, 2008-2022



## Stout domestic markets

Almost half (48%) of all Baltic deals announced in 2022 involved Lithuanian targets, up from a 43% share in 2021. Estonia contributed 36%, with Latvian deals making up the remaining 16%, both down slightly from the last couple of years as Lithuania, the largest economy of the three and the most populous market, increased its share.

The Lithuanian M&A market saw volume slip slightly to 56 deals in 2022 from the 62 transactions announced in 2021. But that figure still easily surpassed the annual pre-pandemic average (19 per year between 2009-19). Moreover, Lithuania recorded a sizeable increase in aggregate deal value compared to 2021 (€427m), logging €705m worth of transactions, a year-on-year increase of 65%.

Estonian M&A decelerated from the striking and unusual highs recorded in 2021 (57 deals worth €1.7bn), declining to 42 transactions worth just under €1.3bn. As was the case across the region, it was nonetheless a strong performance by historical standards. Setting 2021 to one side, deal volumes were higher than in any year in the past decade and aggregate value reached its second-highest mark, bested only by the surge in total value logged in 2018. Furthermore, Estonia contributed half of the 10 biggest Baltic deals overall in 2022, including the single largest, underlining its position as a preferred destination among global investors.

Latvia recorded a decline in deal volumes, with a deceleration from 25 transactions in 2021 to 19 in 2022. It avoided, however, a year-on-year drop in aggregate value, logging €237m from those 19 deals, up 1% from 2021's €235m. This was thanks almost exclusively to an end-of-year transaction, announced on 29 December. For €213m, Lithuanian state-controlled energy holding company Ignitis moved to acquire a 300MW portfolio of solar projects based in Latvia.

## Domestic pipeline

"Restructurings are an active field for us right now. We see companies that are already invested here looking for other opportunities to expand their projects in the Baltics. And we have companies from Estonia and Lithuania doing transactions in Latvia. In the Baltics in general we continually have a good pipeline of work."

*Raimonds Slaidiņš, senior partner and head of Corporate and M&A practice, Ellex in Latvia*



## Latvian advantage

"What makes Latvia stand out is that it is centrally located for the region. That's one reason Air Baltic is here, which has been very beneficial to Latvia. It's easy for potential investors and others to fly in and out. There are also excellent ports, and interesting developments in agriculture; we are seeing some good projects in food processing coming in the next year. The cost base is lower, so there is more potential for setting up manufacturing."

*Māris Brizgo, associate partner and head of public procurement practice, Ellex in Latvia*





# THE BALTICS IN THE EUROPEAN CONTEXT

The Baltics punch far above their weight and offer the archetype for innovation-rich, tech-driven dealmaking in Europe's M&A market

Europe as a whole saw a decline in M&A activity in 2022, which is quite unsurprising given the winding down of the post-pandemic boom and the challenging macroeconomic and geopolitical context. Some 11,549 deals were announced, down 4% from the 12,081 logged in Europe in 2021, while aggregate deal value declined by 20% from €1.2tn to €942bn. However, as we have already seen in the case of the Baltics, these 2022 figures still amounted to a very strong year by historical standards, with the second-highest volume and aggregate value of the 2016-22 period.

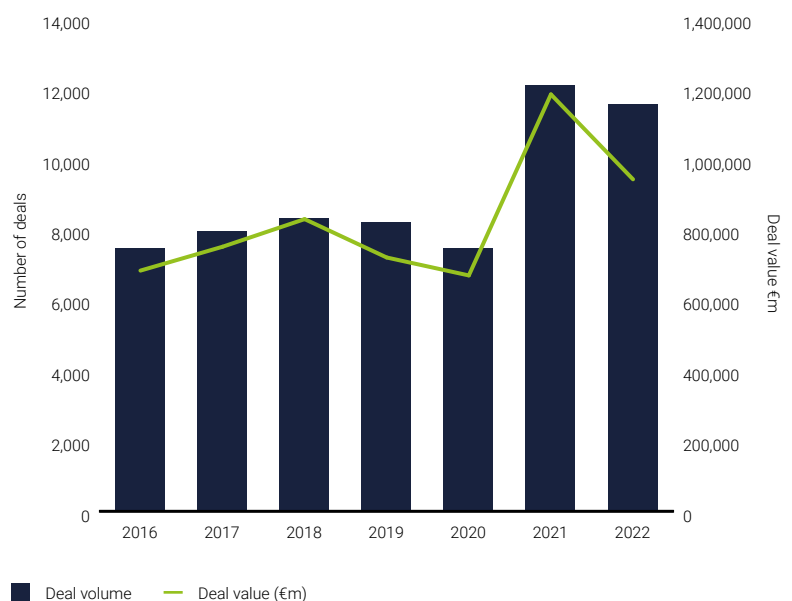
The PE sphere likewise recorded year-on-year declines – more pronounced drops, in fact, than the broader M&A market – while remaining robust against historical figures. PE volume declined by 18% to 3,039 deals from 3,712, while aggregate value dropped by 33%, to €350bn from €519.7bn. Again, despite those rather precipitous-seeming declines, these full-year figures remain the second strongest in the 2016-22 period. Even amid the tighter financing conditions created by rising interest rates, PE firms globally are buttressed by an abundance of dry powder.

Considering key industries, TMT was by far and away the biggest driver of M&A in Europe both in volume and value terms. It contributed almost a quarter of all transactions (2,784, or 24.2%) and more than a fifth (20.3%, €189.8bn) of deal value

in the region. These were similar to the levels recorded in 2021, indicating TMT's resilience across the continent, which has drawn deals on assets from tech start-ups to established media houses and major telecoms operators.

Industrials and chemicals (I&C) was the next most prolific, albeit coming in a distant second place to TMT. The sector recorded 1,758 deals in Europe

## European M&A, 2016-2022







## European private equity, 2016-2022

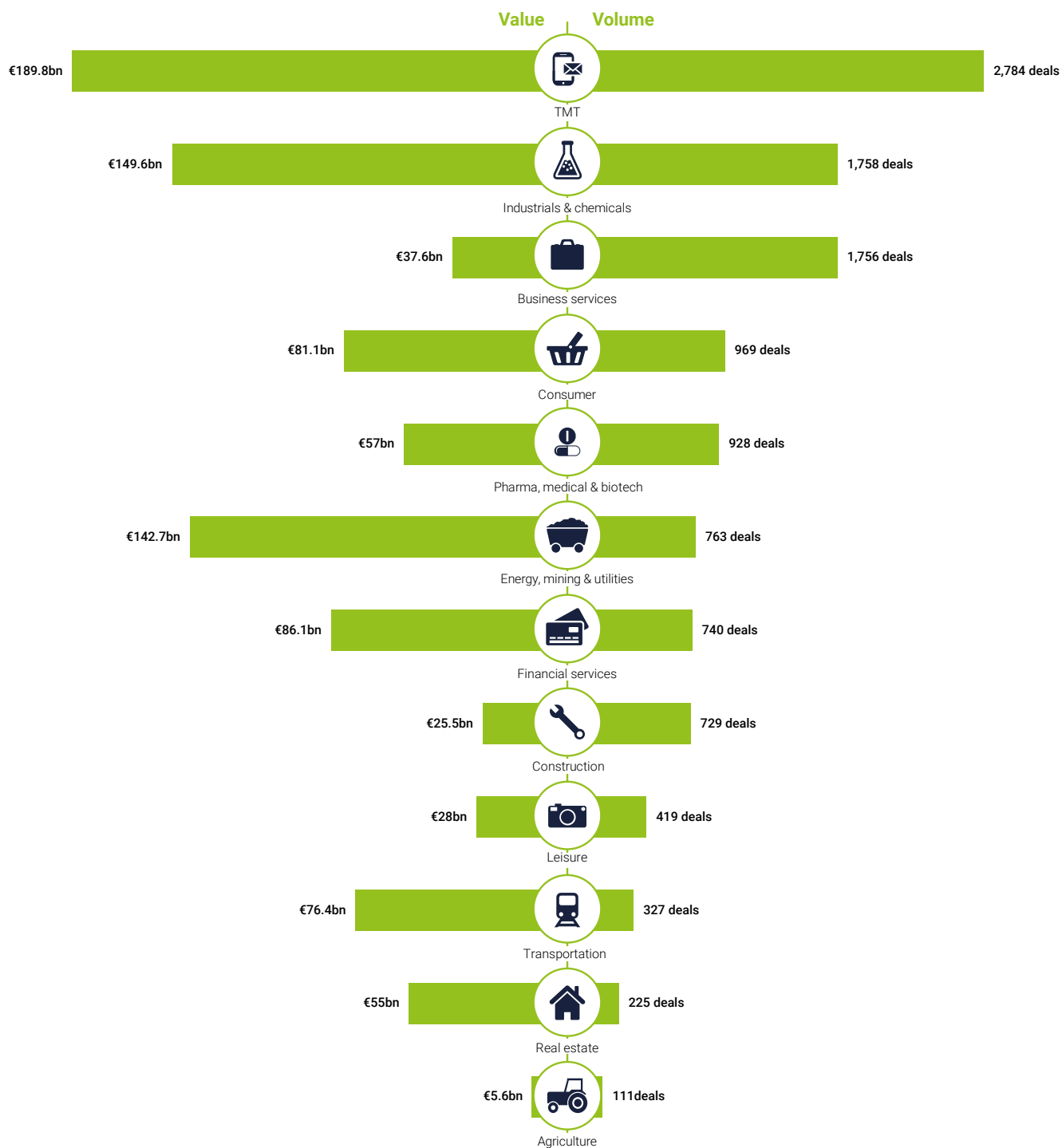


worth €149.6bn in aggregate. Close behind in volume terms was business services with 1,756 deals, and in value terms energy, mining & utilities (EMU) trailed only slightly with €142.7bn in total (and on significantly fewer deals, with just 763 announced in 2022). The figures illustrate the impressive degree of diversification in Europe's M&A market.

### Energy security

Central & Eastern Europe (CEE) saw quite pronounced declines in M&A volume and aggregate value compared to 2021 – which, as elsewhere, was an unusually busy year due to the release of pent-up dealmaking demand post-pandemic. Overall, the region recorded 730 deals worth €37.9bn, down 4% and 22%, respectively, from the highs recorded in 2021 (759 deals worth €48.9bn). Yet again as elsewhere, this remained a strong year by historical standards, despite the increased perception of risk in CEE generated by the war in Ukraine.

## European M&A volume and value by sector



Taking the Baltics and CEE as a whole, the former's share of deal volume declined slightly year-on-year, from 16% in 2021 to 14% in 2022, but its share of aggregate value rose marginally from 5% to 6%. These proportions are broadly in line with the trend observed across recent years, indicating the three Baltic markets' relatively small size and scarcity of very-big-ticket assets, but lively activity in other value brackets.

In a couple of sectors the Baltic region certainly punches above its weight. The three countries accounted for 20% of all TMT deal value across the broader CEE-and-Baltics region in 2022, as well as 24% of financial services deal value. The Baltic states correspondingly accounted for 20% of all regional financial services deal volume and 19% of all TMT transactions. The Baltics' world-beating tech sector is no secret, while its financial services industry has seen lively M&A driven both by consolidation and acquisitions of fintech outfits.

CEE saw seven deals in 2022 worth in excess of €1bn, indicative both of its enduring appeal to investors despite the difficult global and regional conditions, and of ongoing consolidation across a range of sectors. The biggest and third-biggest deals of the year saw PKN Orlen, Poland's largely state-owned oil company, acquire two other state-owned enterprises in a much-anticipated supermerger.

PKN acquired a 71.88% stake in gas utility PGNiG and 100% of vertically-integrated oil company Lotos for €6.19bn and €3.64bn, respectively. Both PKN Orlen and Lotos own subsidiaries in the Baltics, while PGNiG has made major deals to supply Estonia's Eesti Gas and secure regasification capacity at Lithuania's Klaipeda liquefied natural gas terminal in 2022. The mergers may have an impact on the Baltic region, not least as one of the Polish government's main goals in driving this consolidation is to create a regional energy champion that can expand beyond Poland's borders.

## Baltic v CEE M&A volume, 2016-2022



## Consolidation drive

"We have some consolidation of the market where initial owners want to exit and competitors take over, especially where individual founders have set up companies 30 years ago, starting at the countries' independence. We see this consolidation all over various industries, including the services and construction sectors."

*Pēteris Dalderis, partner, Ellex in Latvia*



Between this pair of PKN Orlen transactions was a late-December acquisition by the Abu Dhabi National Oil Company (ADNOC) of a 24.9% stake in Austrian integrated energy company OMV. The deal, worth €3.82bn, is the latest step forward by ADNOC as it accelerates its growth strategy in the global chemicals space.



# SECTOR WATCH AND PRIVATE EQUITY

Technology M&A continues to be the defining feature of the Baltic market, with global PE players keen to snap up high-calibre assets

TMT was once again the top sector in both volume and value terms in the Baltics in the period 2021/22. TMT deals contributed 33% of all M&A by volume in the region during the period, up 14 percentage points on 2019/20. The industry's contribution in value terms was even more notable, with the sector accounting for 51% of aggregate deal value in the Baltics in 2021/22, up 19 percentage points from its share in 2019/20. This was thanks in large part to the previously-mentioned €628m Bolt Technology deal and bolstered by the five other TMT deals in the overall Baltic top-10 for 2022.

The region is renowned globally for its strengths in the tech industry, which is based on its highly-qualified labour force and leverages its outstanding technical education system. The Baltics also enjoy a relatively low tax base, as well as a generally favourable regulatory environment for start-ups. For more than two decades, local entrepreneurs have engaged international investors, particularly from Scandinavia and the US.

After a long series of success stories, the regional early-stage investment ecosystem, drawing on domestic and EU funding, has become a force in its own right. Perhaps the most famous example of a Baltic tech champion is VOIP service Skype, which benefited from Estonian innovation and Danish and Swedish capital.

Estonia in particular has become known as a 'start-up nation' with a focus on tech, and policymakers globally have sought to emulate its 'e-Estonia' digitalisation initiative. But its neighbours have been no laggards in developing their own tech industries and early-stage investment ecosystems. Lithuania has developed notable strengths in fintech, and Latvia has an impressive if fledgling 'deeptech' sector. The proactive stance taken by Baltic authorities has been immensely beneficial.

## Reputation for innovation

The largest deal of the year in the Baltics came in January 2022, when Bolt Technology – the Estonian mobility-as-a-service platform and close

### Unicorn country

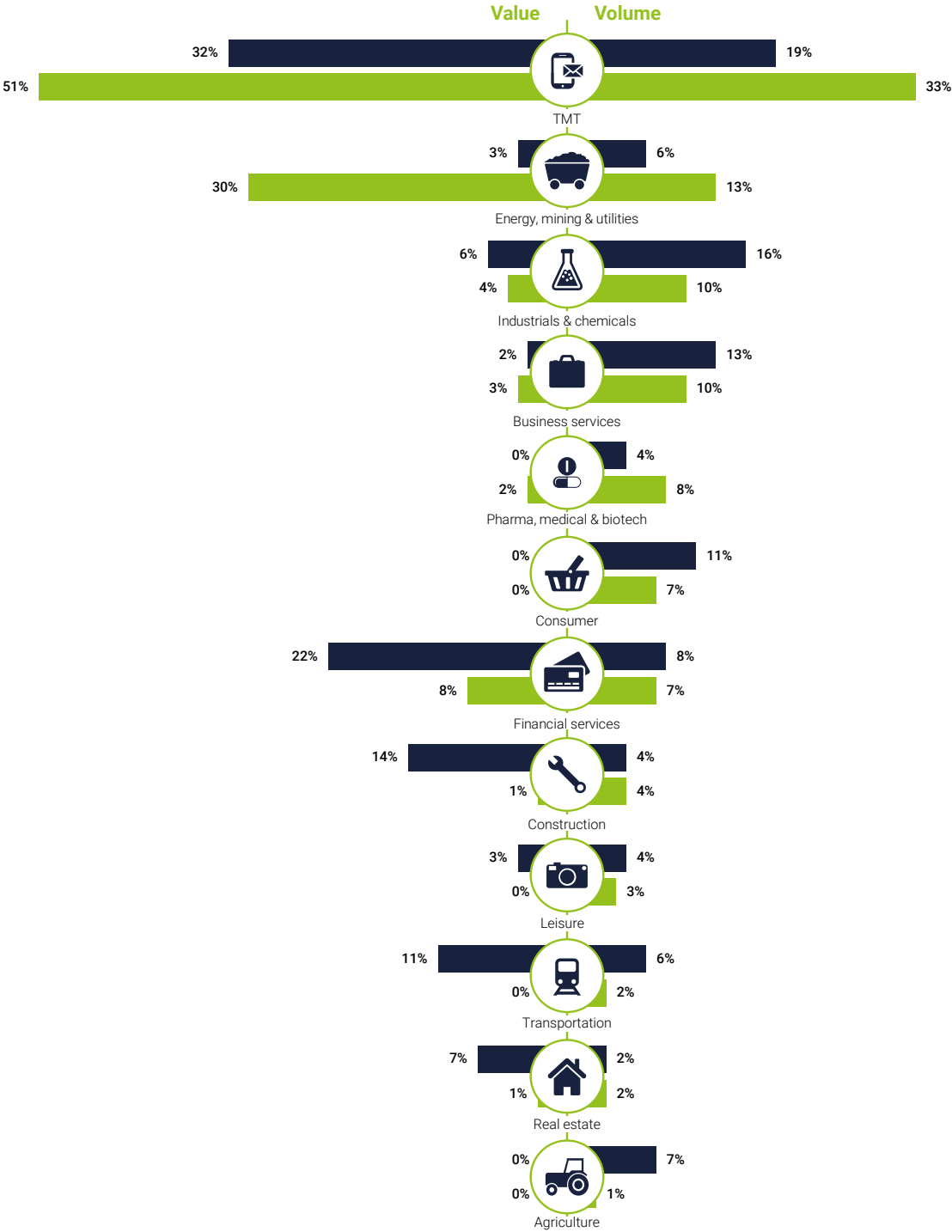
"We had a breakthrough at the end of the nineties with Skype. The Skype founders made quite a lot of money and started reinvesting, but even more importantly they gave courage to many other people. Hundreds saw that it is possible to get funding for your world-changing ideas, and you should be brave, take chances, and go for it. And many did – that's why we are number one in the world for unicorns per capita."



*Risto Vahimets, partner and head of transactions, Ellex in Estonia*

Baltic M&A volume and value by sector

2019-2020 2021-2022



rival to Uber in many markets – closed a funding round worth €628m, with the deal raising its value to €4bn. The company will use the funds to expand into the growing grocery delivery market. The funding round was led by US investors Sequoia Capital and Fidelity Management. This deal alone accounted for around a third of the total deal value recorded in the Baltics in 2022.

Other than this standout deal, other key TMT transactions included the first external funding round raised by Lithuania's Nord Security, the company behind virtual private network provider NordVPN. The deal saw the company raise \$92m at a valuation of \$1.6bn, giving the Baltics yet another unicorn business. The round was led by UK-based Novator, which has backed global tech leaders including Deliveroo and Stripe. Other investors included regional fund BaltCap, as well as several private investors.

Another success was the acquisition of Latvian open banking platform Nordigen by UK-based GoCardless, a global leader in direct bank payments, for an undisclosed amount. The deal saw GoCardless add to its expertise in fintech and electronic banking regulations, to say nothing of Nordigen's pan-European proficiency, with the company operating in more than 30 jurisdictions across the region.

Several similar transactions emerged over the course of 2022, and the Baltic tech industry looks set to go from strength to strength, capitalising on the region's fundamental strengths and growing deal momentum. With each new headline-grabbing transaction, dealmakers globally become even more confident in the strength of the Baltic tech market. Looking ahead, even more substantial rounds of investment in increasingly diverse fields seem likely to materialise.

## Setting a good example

"The Nord Security deal is very significant and an acknowledgement of NordVPN's standing in the market. It's great news for the ecosystem in Lithuania because we got our second unicorn. It attracts the attention of investors – they look at Lithuania and see that Novator can invest and views this is the right jurisdiction, and they believe they can bring big projects to bear as well. And now we know they are coming and talking to founders, and big new rounds are on the horizon."

*Rūta Armonė, partner and co-head of Corporate and M&A practice, Ellex in Lithuania*



## Money is no object

"Tech will definitely power ahead – there's just so much money there. But we will also see some distressed deals, not because of a lack of cash, but as some companies may not achieve planned funding rounds as investors are trying to be smart and postpone to jump in at lower valuations."

*Risto Vahimets, partner and head of transactions, Ellex in Estonia*





### Green credentials

After TMT, the next biggest sector for M&A in the Baltics was EMU, which accounted for 13% of all deals in the region by volume in the period 2021/22, up seven percentage points from 2019/20. EMU also contributed 30% of aggregate deal value in the period 2021/22, up a striking 27 percentage points from 2019/20.

The sector contributed the third and fourth largest deals in the Baltics in 2022 overall, with both being announced in Q4. The larger was intra-regional, with Lithuania's state-controlled Ignitis Group acquiring a 300MW portfolio of Latvian solar projects for €213m. Construction is expected to begin in 2024, with the projects to become operational the year after.

Not far behind in terms of total consideration, in mid-October Estonian renewable energy company Sunly raised €200m in equity funding. The investors were led by French banking group BPCE through its subsidiary Mirova, an asset manager with a focus on sustainable finance. The investment will enable Sunly to expand its renewable energy portfolio in the Baltics and in Poland.

The EU is leading the global drive for a global energy transition to achieve net-zero carbon emissions

by the second half of the century, with funding mechanisms worth €1tn to deliver the 'European Green Deal' – the Baltics will not miss out.

In August 2022, Latvian Prime Minister Krišjānis Kariņš announced that investments under state-owned companies Latvenergo and Latvia's State Forests through their joint venture Latvijas Vēja Parki (Latvian Wind Farms) would be one of the largest in the country's history, reaching €1bn. Latvia aims to increase its wind power capacity from 70MW to 800MW by 2030, and Latvenergo also has an agreement with German energy company RWE to develop offshore wind. Furthermore, Latvia and Estonia have a joint project, ELWIND, to establish 1GW of offshore wind capacity in the Baltic Sea. Solar energy is not being neglected – in October 2022, Lithuanian renewables developer Green Genius announced plans to invest €750m in its home market, including establishing 500MW of solar power.

The sector that saw the most notable decline in volume terms over the past two years was I&C, which accounted for 10% of all Baltic M&A in 2021/22 – still the third-highest share (tied with business services) but down six percentage points from 2019/20. But its share of aggregate value hardly declined at all (to 4% from 6%), indicating

that the sector was still seeing bigger-ticket activity. One of the year's notable industrials deals, announced in early 2022, saw Estonian cleantech company Skeleton Technologies raise €37.6m of equity investment in a Series D3 round led by private investor Taavet Hinrikus, the co-founder of money transfer fintech Wise.

On the subject of industrials and electronics, in November 2022 the Taiwanese representative office in Vilnius announced a €10m investment in semiconductor production in Lithuania. While the investment is relatively small, it could prove very significant, given Taiwan's leading role in the global semiconductor industry and the EU's aims to boost its own chip production. The Taipei government has said that the Lithuanian investment could see the country become a gateway to the European market. It is part of a €200m fund and €1bn loan facility for Lithuania and other CEE countries and underscores strengthening relations between Taiwan and Lithuania.

In value terms, the steepest faller was the financial services sector. Its share of Baltic M&A in aggregate value terms declined to 8% in 2021/22 from 22% in 2019/20, though it remained the third biggest sector in value terms. The drop came despite financial services' share of deal volume hardly declining – it fell to 7% from 8% – suggesting that while there are fewer high-value deals, activity as a whole has remained steady.

The sector's decline in aggregate value terms would have been even more precipitous were it not for the previously mentioned Blackstone-Nord/LB Lietuva deal, which was the second largest in the region overall. The US PE giant acquired an 11.6% stake in the commercial bank, one of Lithuania's largest, for €329m.

The deal continues Blackstone's previously-agreed deal with Finland-based Nordic bank Nordea, which is gradually exiting its share in the Baltic lender. The regional banking sector has seen a substantial clean-up over recent years following

## Diversifying renewables

"One big driver is the need for different types of renewable energy. That's a theme we've seen for a couple of years now. Even if these are not yet 'done deals', we certainly have investors who are really looking for opportunities in the space."

*Risto Vahimets, partner and head of transactions, Ellex in Estonia*



## New model for renewables M&A

"We've developed our practice in a new type of M&A for renewables transactions. These deals are not just about selling the company – they're often about development. These are M&A deals executed at very, very early stages for companies, when they are not yet operating or not ready for a construction permit, but already selling. The transaction documents look very different from what one usually sees."

*Rūta Armonė, partner and co-head of Corporate and M&A practice, Ellex in Lithuania*



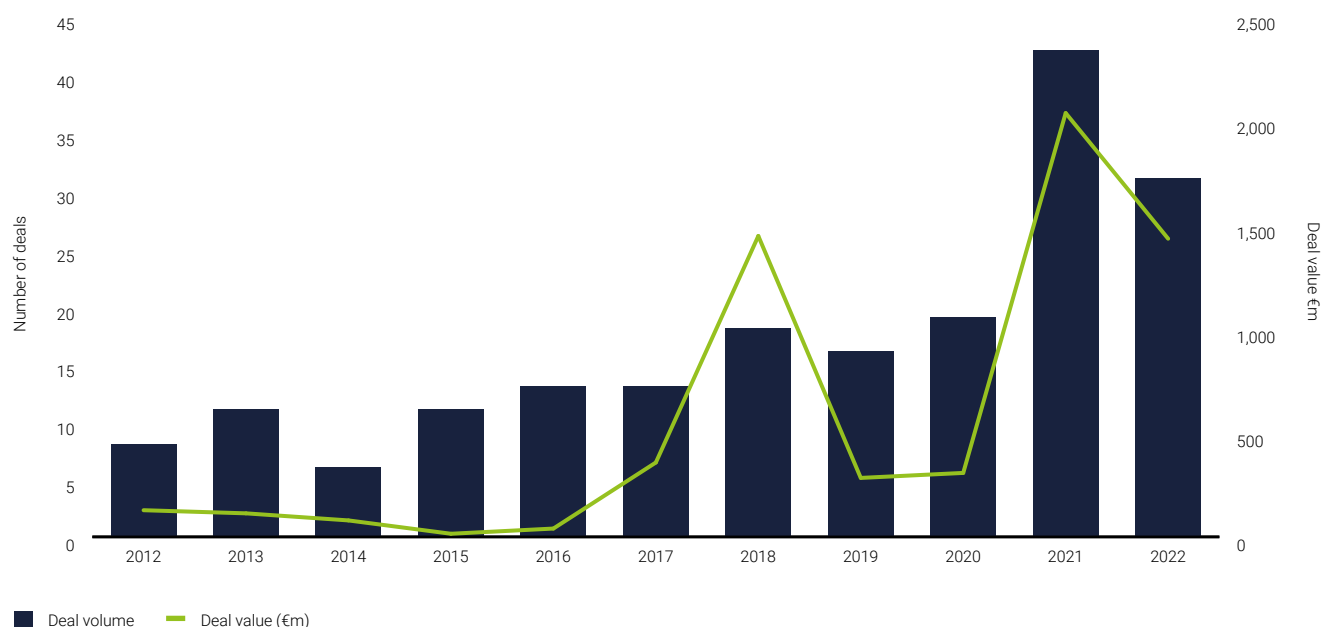
money laundering scandals in the middle of the last decade, including the Danske Bank crisis, which had a particular impact on its Estonian subsidiary. Anti-money laundering and ultimate beneficial owner transparency requirements have since been tightened considerably.

## Baltic VC advancing

One of the most important trends of recent years in the Baltic M&A market has been the growth in PE and VC. In 2022, the decline in Baltic PE activity followed that of the region's broader M&A market. The space saw 31 deals announced – down 26% from the 42 logged in 2021, but still readily surpassing the annual sums logged over the previous decade. Prior to the boom year of 2021, the highest number of Baltic PE deals in a single year was 19, in 2020.



## Baltic private equity, 2012-2022



Likewise, aggregate PE deal value also declined, falling to €1.43bn in 2022, down 30% from the €2.03bn recorded in 2021, but again far surpassing all but one annual total (2018's €1.44bn) over the past decade. Significantly, six of the 10 largest deals announced in the Baltics in 2022 involved either an extra-regional PE outfit or VC fund as one of the bidders or part of the consortium of investors.

It is clear that PE and VC investors have strong and growing interest in the region. International funds are increasingly supplemented by a lively domestic industry; the thriving ecosystem gives growing opportunities for partnerships between cross-border PE and VC investors and local players. The regional VC field has been bolstered by local high-net-worth individuals, including entrepreneurs who have exited their own companies, providing them with capital to invest elsewhere. Of course, geopolitical tensions would create more challenges for the start-ups seeking VC funding to grow developing companies.

### Smart money

"The VC world has definitely found us – the biggest VCs in the world are here. Local VCs are also very well-funded, with very smart money behind them. It's easy for large institutional VC groups to go into funding rounds with these guys, because they're absolute professionals. I think the sector will get larger and larger, particularly if there is peace in Ukraine."



*Risto Vahimets, partner and head of transactions, Ellex in Estonia*

### In the family

"We have seen the emergence of new family offices, which is rather novel for Estonia. The number is growing and growing, and they are active in sectors including tech and real estate. They know the local businesses and people well. Over 2022, I mostly advised on deals for family offices and PE firms, and I assume this trend will continue in H1 of 2023."



*Ermo Kosk, partner, Ellex in Estonia*

# BALTIC OUTLOOK 2023

Even in the face of macroeconomic unrest, the Baltics' well-burnished reputation for technological excellence stands the region in good stead

After a strong start to the year, dealmaking slowed in Q2 2022 due to geopolitical concerns relating to Russia's invasion of Ukraine. While the perception of risk to the Baltics eased in the middle of the year, these direct conflict-related concerns precipitated and were to some extent replaced by strong macroeconomic headwinds including mounting inflation, rising interest rates and the threat of recession.

As relatively small, very open economies that are net energy importers, the Baltic states are as exposed to these threats as any other countries. But they also stand to rebound strongly when inflation eases – as forecasters believe will happen in H1 2023 – and the global economy picks up pace again. While 2023 may not prove to be a strong year for GDP expansion by the standards of the post-pandemic boom, the Baltic countries are likely to avoid recession and indeed record steady progress.

There is already momentum behind prospective new deals. According to Mergermarket's intelligence tool, which tracks 'companies for sale' stories, 49 potential targets in the Baltics are already in dealmakers' sights for 2023. Unsurprisingly, TMT companies lead the way, contributing 14 stories (29% of the total), followed by I&C (nine companies, 18%) – heartening news for a sector that saw a slower year in 2022 – and financial services (also nine).

## Baltics heat chart

Sector	Volume
TMT	14
Industrials & chemicals	9
Financial services	9
Business services	5
Energy, mining & utilities	5
Consumer	3
Pharma, medical & biotech	2
Transportation	1
Defence	1

Companies for sale stories tracked by Mergermarket  
01/07/2022 to 31/12/2022

## Global concerns

"We're not hearing any questions about the war in Ukraine or political stability in the region now. It's more about the macroeconomic situation – and that reflects what's happening in other parts of the world."

*Rūta Armonė, partner and co-head of  
Corporate and M&A practice, Ellex in Lithuania*





TMT will continue to go from strength to strength, building on the region's two decades-plus of global success, and with an infusion of new investment from founders who have capital from previous exits. The I&C sector will benefit from a trend towards nearshoring, as well as activity from international players from as far afield as the UK, US and Taiwan, who are weighing up new opportunities in high-tech manufacturing. Meanwhile, consolidation will continue in financial services, with the sector also ripe for ongoing disruption led by new institutions including 'neobanks' and fintechs.

Investors will also be keeping a close eye on potential targets in other increasingly fast-moving sectors, especially energy but also construction and real estate. Similarly, the pandemic led to an acceleration in investment in healthcare and life sciences worldwide and has given impetus to modernisation and innovation in the Baltics, too.

While there is only one potential for-sale story in the Baltic defence industry at the time of research, dealmaking in the sector is expected to increase over the coming years, partly due to the impact of the war in Ukraine and increasing NATO investment in the region's security. Latvia is home to Europe's first 5G defence testbed, allowing its allies to develop, test and demonstrate 5G applications, including artificial intelligence technologies.

As the Baltic countries enter 2023, downside risks from the global economic and political situation continue to loom. But this dynamic and open region's competitive advantages should stand it in excellent stead over the medium and long term.

## 2023 – a year of challenges, as well as opportunities

"2023 will be a year of challenges for Baltic industry – continuously high energy prices and the increasing cost of capital will continue to contribute to even higher production costs, which will be impossible to pass over to the consumers who are already suffering from high inflation, resulting in lower consumer confidence. But challenges do also create new opportunities, and we may witness more pronounced M&A activity also in the 'old industries', possibly also some distressed asset sales."



*Sven Papp, partner and co-head of transactions, Ellex in Estonia*

## Building back on track

"Construction will be active because of all the major ongoing infrastructure projects. There have also been some real estate projects that were suspended in 2022 that will go ahead in the next year. There are also likely to be part-privatisations of big infrastructure companies controlled by the state."



*Pēteris Dalderis, partner, Ellex in Latvia*

## Health conscious

"There has been a lot of consolidation in private healthcare. It's been very active indeed – previously there were very few private healthcare providers in Estonia, but that's started to change. I'd expect the sector to be a main driver of activity in the medium term."



*Ermo Kosk, partner, Ellex in Estonia*

## A wealth of opportunities

"While the macroeconomic outlook for 2023 may not seem strong, things are more positive when you look into the details. Baltic exports are holding up well. We have a pipeline of deals. Unemployment is low. The renewables and tech sectors should move forward. We expect a similar year to 2022."



*Paulius Gruodis, partner, Ellex in Lithuania*

# 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 48 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 40 lawyers, including 15 partners
- Top international transaction practice in the Baltics by deal count in Eastern Europe, Bloomberg 2022 and Refinitiv 2022
- Top Tier1 rankings in Corporate and M&A by Legal 500 and IFLR 1000

## Top news

- Law Firm of the Year – the Baltics 2020-2021 and Northern Europe 2022 by The Lawyer
- Baltic Law Firm of the Year by IFLR European Awards, 2022
- Baltic Law Firm of the Year by Who's Who Legal, 2022

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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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