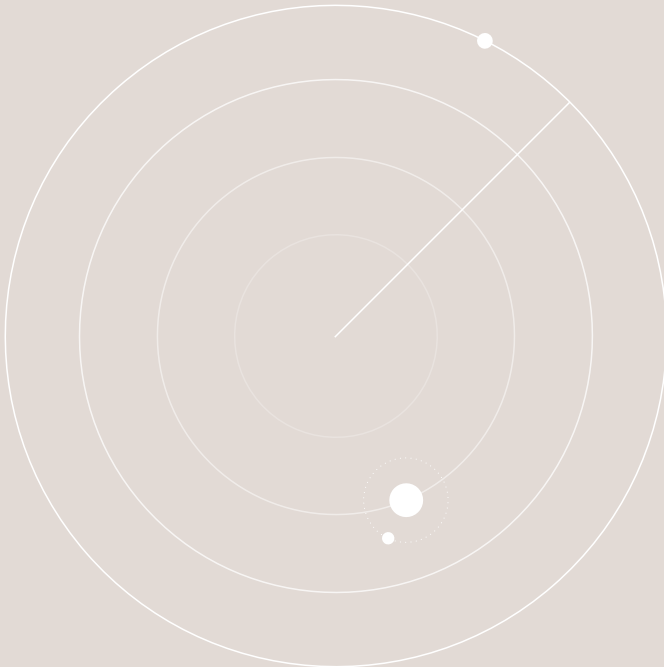
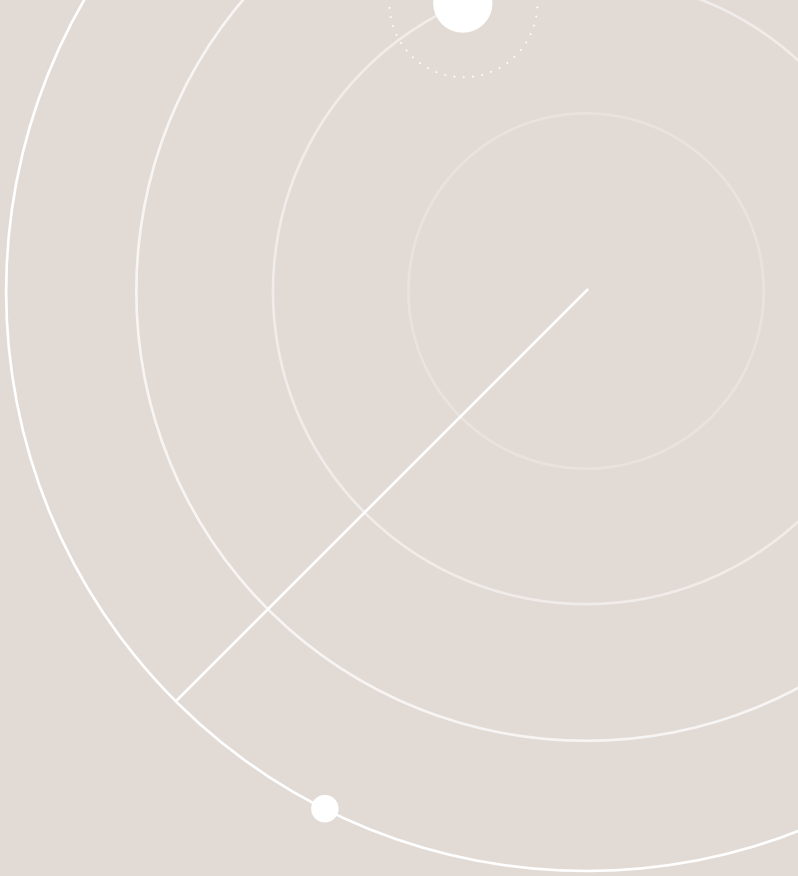


# Ellex<sup>®</sup>

TRANSACTION RADAR



Overview of 2023 and  
beginning of 2024

# ELLEX TRANSACTION RADAR: OVERVIEW OF 2023 AND BEGINNING OF 2024

**Comments by** [Risto Vahimets](#), [Sven Papp](#), [Antti Perli](#), [Gerli Kivisoo](#),  
[Kevin Gerretz](#) & [Martin Mäesalu](#)

Transaction Radar summarises the most important trends of the transaction market in 2023.

## TRANSACTION RADAR 2023 SUMMARY: NEW INTEREST RATE LEVELS FIXED FOR A LONGER TERM, WILL WE SEE ACTION?

In 2023 we counted a total of 61 venture capital/technology transactions, 4 major real estate transactions, 9 emissions (incl. over-the-counter) and 63 traditional mergers and acquisitions (M&A deals) in Estonia (137 in total). The trend for the number of transactions in the second half of the year was stable compared to the first half but the fourth quarter saw some upturn. So, with the small number of transactions, we can take some joy in the growth in the last quarter. Let's hope this trend continues.

**Risto Vahimets**, *Partner and Head of Transactions | Ellex in Estonia*

The most important macro-indicators that affect the transaction market (through the company price) are undoubtedly interest levels and inflation. It appears that both have reached stability on a global scale. Central banks are unlikely to raise interest levels any further and inflation has been brought to a halt. Stability is a growth bed for transactions, mostly because the buyers and sellers have a converged understanding about future cash-flows and resultingly of company values are converged.

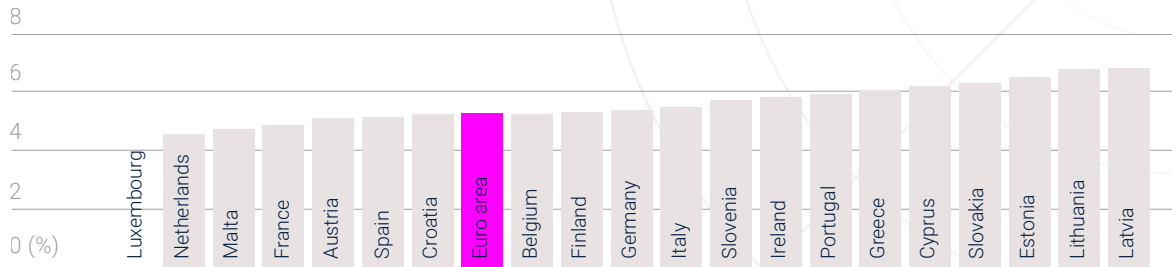
In terms of economic growth, many forecasts predict that the world will be in a bleak state for another year. The relative rise of the "global" south will continue on account of our region.

Estonia is very much at the "forefront" of economic recession (based on the third quarter - an annual decline of 3.9%) and this of course does nothing to boost the local transaction market.

According to the European Central Bank, the interest rates for business loans in Estonia were also among the highest in the eurozone.

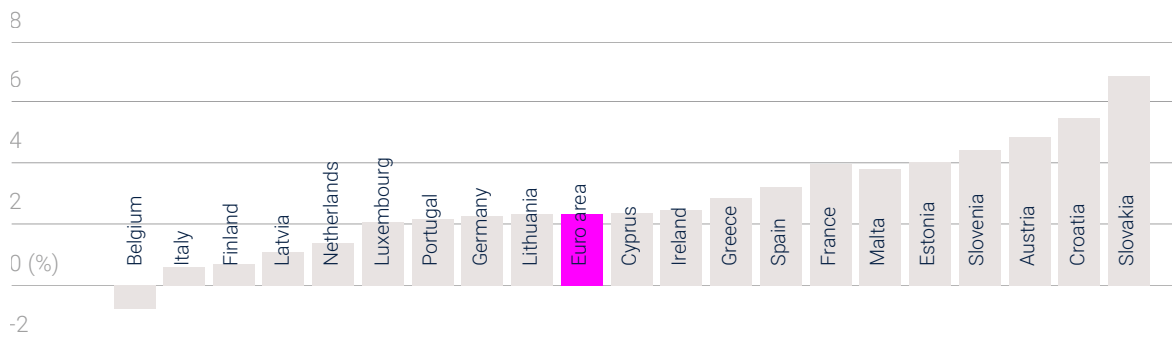
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## INTEREST RATES OF BUSINESS LOANS



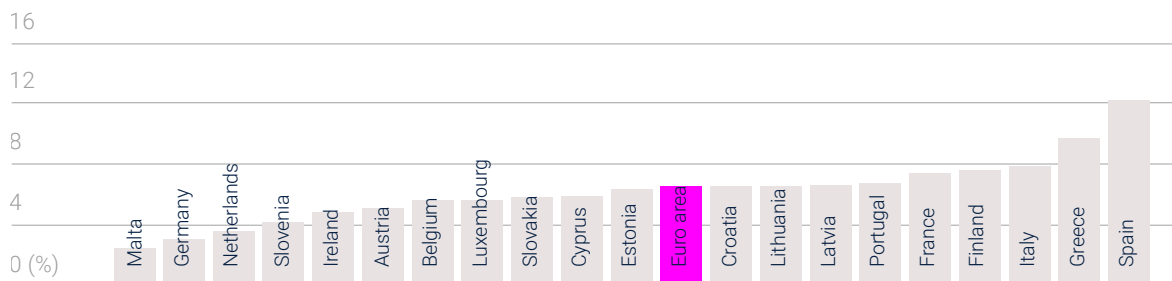
The inflation in Estonia is also among the highest in the eurozone...

## INFLATION



There is some consolation in the fact that just like in most eurozone countries (with the exception of Spain and Greece), our employment rate is also in a relatively good state.

## EMPLOYMENT



These macroeconomic indicators correlate with the current low-point in the transaction market of our small country.

The USA and Europe are both complaining about the small number of transactions and lack of major deals. Only a few sectors have shown a higher transaction activity. According to Mergermarket, in Europe these sectors are technology, media and telecom, but the number of transactions in these sectors is also lower compared to previous years. There were two major global transactions in the second half of 2023. Both in the energy sector, oil production more specifically. Exxon and Chevron both purchased additional fracking capacity for oil production in deals amounting to 50+ billion dollars. However, Mergermarket outlines that in regions that are the UK & Ireland (UKI) and Germany, Austria and Switzerland (DACH), the number of M&A deals with industrial companies has increased. Meanwhile, conversations with colleagues from around Europe really show that in comparison to previous periods, there is considerably less private equity transactions, but there are noticeably deals with strong companies in well-known sectors.

In Estonia, the technology sector, which is important for us, showed signs of recovery (38 capital raisings vs 23 transactions in the first half of the year) and was dominated by Skeleton raising 108 million euros and Elcogen raising 48 million euros. It is important to stress that both transactions involved major companies, not venture capital or private fund investors.

If we look at the global picture, it is difficult to identify positive sectoral trends. In the second half of the year, the largest transactions included, in addition to the above, two real estate portfolio deals (Heathpeak Properties & Physicians Realty Trust and Realty Income & Spirit Realty), a logistics deal (Stonepeak & Textainer), an entertainment deal (Six Flags & Cedar Fair) and a pharmaceutical deal (Roche acquired the intellectual property rights to a drug for inflammatory bowel diseases).

In a summary of the entire year, perhaps the addition of the Roche deal to the medical transactions of the first half-year (Polyplus Transfection & Sartorius; acquisition of Seagen by Pfizer; acquisition of Prometheus Biosciences by Merck and acquisition of Oak Street Health by CVS Health) could be a trend.

The energy deal trend continued in Estonia also in the second half of the year. Tallinna Soojus, Nordic Gas Solutions, Vindr, Efenco, Roofit Solar, acquisition of Gaso by Eesti Gaas in Latvia in the first half and then Footon Volt, Raja KT, VKG Elektrivõrgud, Rohe Solution, and the acquisition of the Valka and Paide district heating networks by Utilitas show the continued focus on the energy sector.

### **What to predict for 2024?**

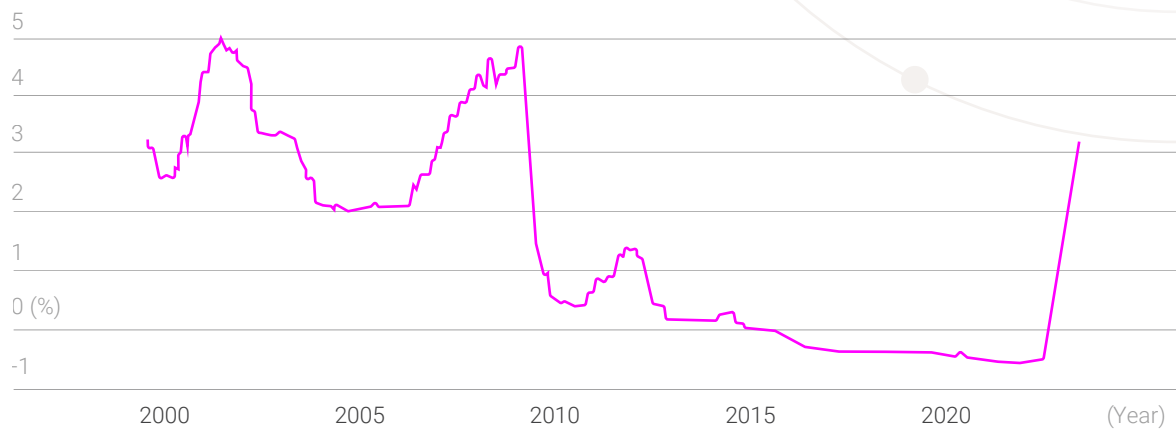
I will allow myself to be positive because capitalist economy has been cyclic for centuries or, actually, since the beginning. Every fall is followed by a rise. And the reversion of economy begins with investing, with M&A transactions being one of its most important forms. Secondly, the reality is still that the world's venture capital and private capital funds are deep in money. Trillions of dollars in accounts, waiting to be invested.

The war in Ukraine and Russia's exclusion from trade in our region has a major impact on Estonian economy. In the geographical periphery of Europe, we are more and more dependent on our success in smart economy which does not require a big population or a geographically central location. In fact, the future of entire Europe depends on maintaining our lead in education and through this also in smart economy. Given how important smart economy is for us, I can see the technology sector growing more important in the Estonian transaction market as well - in 2024 and beyond that. When it comes to 2024, Estonian companies and private individuals still have considerable capital buffers, and this allows progress for certain bond and equity raising - but only for the selected few.

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For the sector-based forecast, I would stick to what I said in the Transaction Radar of the first half of the year - we will witness interesting and positive events in the sectors less battered by the decline - military manufacturers and technology, energy producers and technology, pharmacy and medicine and entertainment.

The real estate sector will become more interesting (currently completely at zero, except for the Viru Centre deal), new interest rate levels need getting used to and certain assets need to be let go due to interest rate pressure or due to the "held long enough already" phenomenon. Prices and yields that were based on the availability of 0% interest foreign investments are foregone. I would still like to point to the long-term Euribor perspective: in 1999-2009 Euribor was constantly higher than its current rate.



Euribor did, however, drop slightly in November and there is actually a strong supply of money on the market.

Have courage in dark times! I wish everyone a successful 2024 transactional year in a new brave world, where the keywords are war, deglobalisation, security over economic thinking, sanctions, big and interfering government, increase in the price of money, new technologies and phasing out fossil fuels.

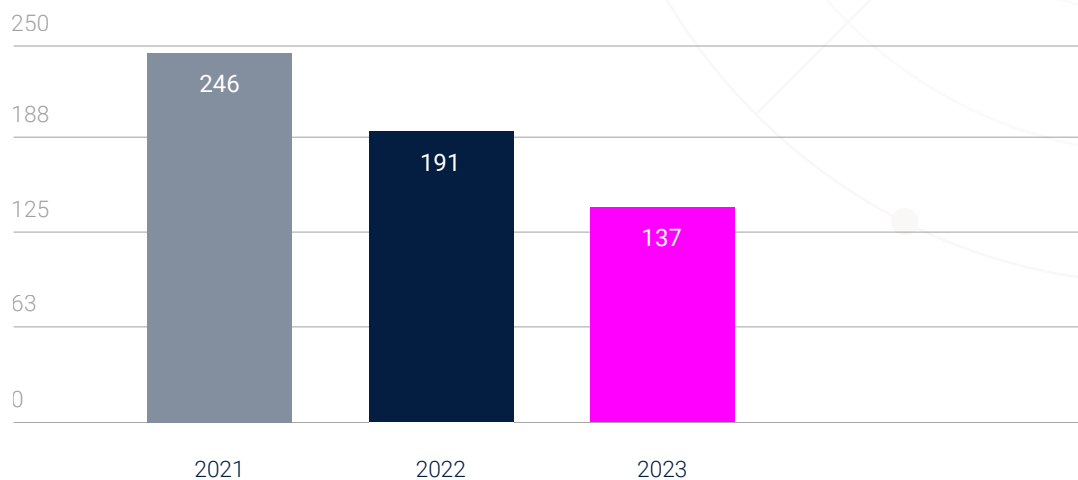
## NOTEWORTHY M&A TRANSACTIONS IN 2023

- Merger of Tallinna Soojus and Utilitas
- Acquisition of Gaso by Eesti Gaas
- Sale of Milrem to EDGE
- Sale of AS Toode to Kingspan
- 50% of Dunker AS sold to Hawesco
- Baltic Workboats and Suomen Työvene

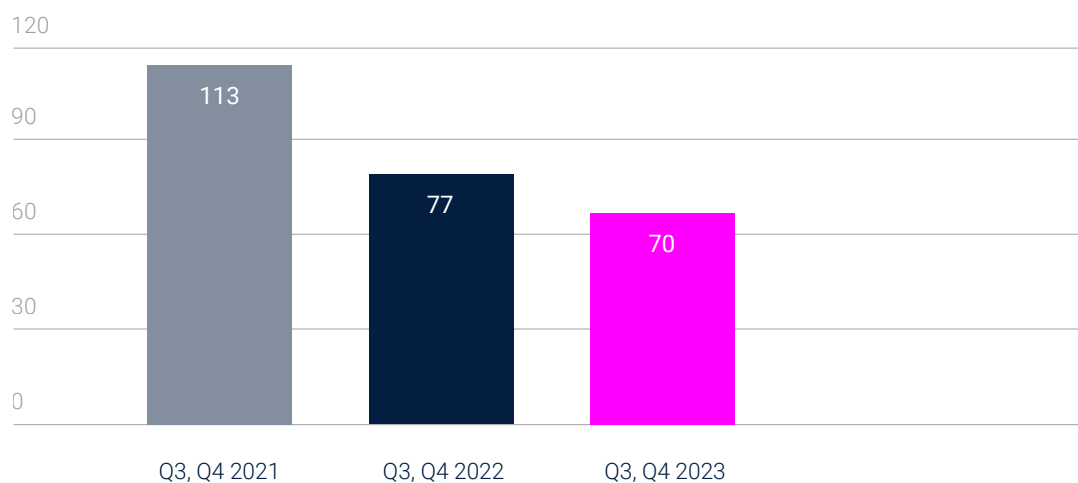
## LARGEST GLOBAL DEALS IN 2023

- Exxon & Pioneer Natural Resources 53,5 BUSD
  - Chevron & Hess 53 BUSD
  - Extra Space Storage & Life Storage 47 BUSD
  - Pfizer & Seagen 43 BUSD
  - UFC & WWE 21,4 BUSD
  - Healthpeak Properties & Physicians Realty Trust 21 BUSD
  - Nippon Steel & U.S Steel 14,9 BUSD
  - Bristol Myers Squibb & Karuna Therapeutics 14 BUSD
  - Carrier Global & Viessmann Climate Solutions 13,7 BUSD
  - Brookfield Infrastructure & Triton International 13,3 BUSD
  - Silver Lake and Canada Pension Plan Investment Board & SAP SE shares of Qualtrics International 12,5 BUSD
-

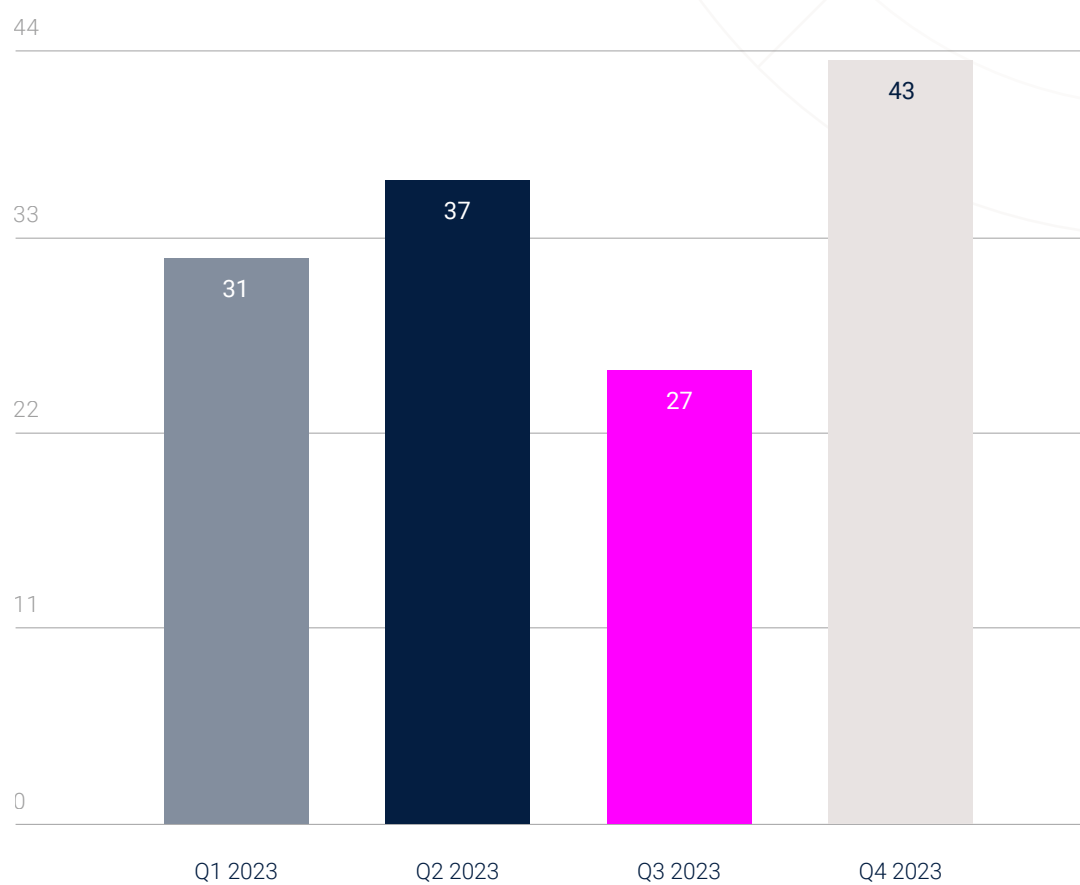
### TOTAL NUMBER OF TRANSACTIONS 2021-2023



### TOTAL NUMBER OF TRANSACTIONS IN THE II HALF OF THE YEAR 2021-2023



## TOTAL NUMBER OF TRANSACTIONS IN THE LAST 4 QUARTERS



## 2023 IN THE TECHNOLOGY SECTOR: CORRECTIONS AND THE RISE OF THE GREEN SECTOR

2023 can be considered a period of corrections in the technology sector, especially for venture capital. The number and volume of investments has decreased considerably, and the pace of transactions has slowed down, there have been redundancies and corrections in company values.

**Antti Perli**, Partner and Head of Venture Capital practice | Ellex in Estonia

The corrections mainly concern later stages of funding, including over 100-million-euro mega-rounds, the number of which in Europe has dropped several times in 2023. In earlier stages, such as seed rounds, the situation has been somewhat more stable.

Compared to 2021, the volume of investments into European startups has fallen by half. There are signs of a decline in investments by US investors in the region. When discussing the significant decrease in raised capital, it should not be forgotten that data is often compared to the 2021-2022 period which was a period of market overheating. In the long term, investments in the technology sector are still on the rise in Europe.

Whereas we have also seen down-rounds in Estonia, which are investment rounds where the company value is adjusted downwards compared to prior investment rounds. Many companies have tried to avoid such adjustment by raising capital using convertible loans in which the determination of company value is postponed to the future.

In 2023 the technology investments in Europe focused on companies that resolve climate and energy problems (carbon & energy). According to the Atomico State of European Tech 2023 report, investments in this sector comprised nearly 30% of the total volume of investments. This was the most attractive sector in terms of the volume of capital raising, surpassing the fintech and the broader software sector.

This sector also received remarkable attention in Estonia in 2023. The biggest deal was the € 180 million funding round of Skeleton Technologies led by Maruben and Siemens. Followed by HD Hyundai's € 45 million strategic investment in Elcogen.

An early-stage active player this year was state investor SmartCap that made several direct investments from its Green Fund - UP Catalyst, Bisly, Paul-Tech, Cuploop, Vok Bikes, e-Agronom. At the end of the year, the closing of investment rounds was also announced by Ecobase (2.5 million euros), Woola (2.5 million euros), Arbonics (5.5 million euros) and RAIKU (8.8 million euros).

Another important focus in Europe was of course AI – investments in this sector amounted to about 11% of the total volume of investments. In 2023 there were 11 megarounds in the sector, which is 22% of all the megarounds. French company Mistral AI broke the record, managing the biggest seed round in European history amounting to 113 million dollars.

I personally still find it important to keep an eye on UniTartu Ventures, a company established for commercialising the intellectual property of the University of Tartu, which last year invested in UP Catalyst and Gearbox Biosciences. The more there are examples of successful commercial uses of technology developed in universities and research institutions, the more researchers are interested in contributing to entrepreneurship and investors encouraged to cooperate with universities.

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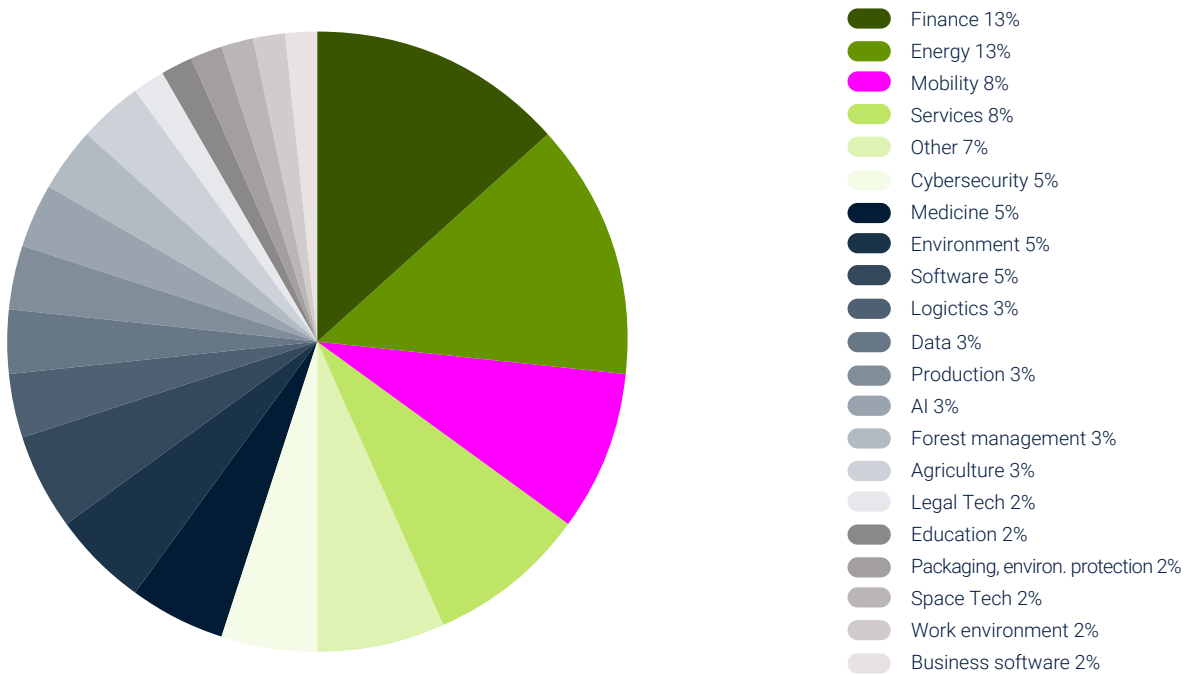
In 2024 I would definitely want to see more investments in technology companies that operate in the defence industry. A contribution to this can be made from the one-billion-euro NATO Innovation Fund that starts its investment activity and where Estonia has invested 30 million euros, with the aim to fund companies that develop dual use (civil and military use) deep technology.

I believe 2024 will be successful for entrepreneurs who have fully acknowledged the new reality - gone are the times when it was easy to raise capital.

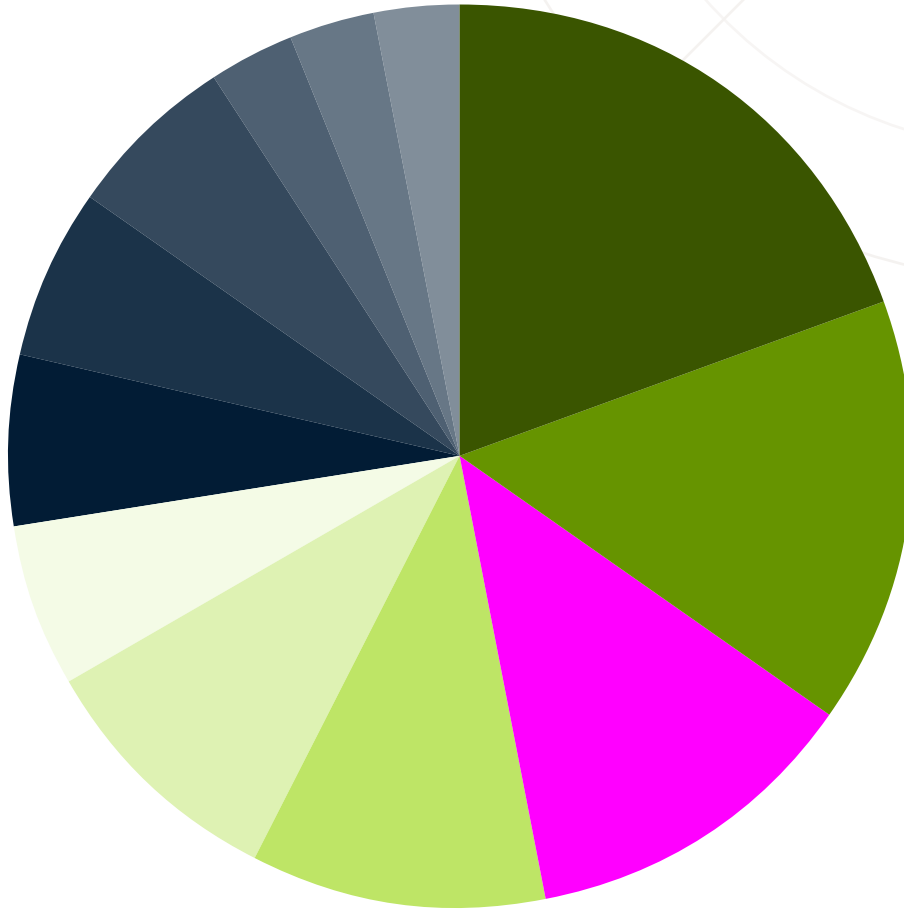
## TOP VENTURE CAPITAL TRANSACTIONS 2023

- Skeleton
- Elcogen
- Funderbeam
- Druid
- Binalyze
- Rangeforce
- Commsignia

## 2023 VENTURE CAPITAL TRANSACTIONS (%)



## 2023 M&A AND REAL ESTATE TRANSACTIONS (%)



Production 19%  
Energy 14%  
Technology 11%  
Commerce 10%  
Services 9%

Real estate 6%  
Finance 6%  
Construction 6%  
Other 6%  
Medicine 3%

Telecom 3%  
Circular economy 3%

## 2023 ON THE STOCK MARKET: THERE IS MONEY, THERE IS INTEREST BUT NOT ENOUGH COURAGE

2023 on Nasdaq Tallinn Stock Exchange was definitely interesting - only 3 new issuers on the Baltic market, bond offerings were a wild success and the First North alternative market witnessed its first delisting caused by bankruptcy.

**Gerli Kivisoo**, Partner | Ellex in Estonia

2023 on Nasdaq Tallinn Stock Exchange was definitely interesting - only 3 new issuers on the Baltic market, bond offerings were a wild success and the First North alternative market witnessed its first delisting caused by bankruptcy.

The star of the year is unquestionably Infotar. Considering the general distress in the market, it was a very bold decision to carry out an IPO this year and do it shortly before Christmas. The base volume of the share offer was even slightly oversubscribed. It is obvious that Infotar achieved excellent results. This transaction is also significant because there are a number of potential as well as existing issuers who have made their plans and timing for admission to trading or an additional public offering dependent on Infotar's performance. This is cause for optimism.

The demand in the public offerings of bonds by domestic banks outweighed the supply by a landslide. The base volume of LHV's offering of unsecured subordinated bonds was 25 million euros, bonds were subscribed for a total of 407.5 million euros. Bigbank aimed to raise 3 million euros by offering the same instrument, the demand amounted to 21.6 million euros. Even before Christmas, Inbank also carried out a public offer of unsecured subordinated bonds and Inbank's respective numbers were 6 million euros and 46 million euros. What can we conclude from this? Firstly, investors have money. Secondly, this money is looking for secure and stable yield. Banks offered bonds with an annual interest rate of 8%-10.5%.

We witnessed the first bankruptcy on the First North alternative market. The shares of cargo bike producer Hagen Bikes were delisted because the court declared the issuer bankrupt. The shares of Hagen Bikes were admitted to trading at the end of 2021 when Hagen Bikes raised 0.5 million euros with the public offer of shares. At the time, demand for the shares considerably exceeded the supply. Investors subscribed for 7.45 million euros of shares, meaning that the offer was oversubscribed 14.9 times. But 2021 was a wild year for public offerings - everything that was offered was bought without the bat of an eyelid. This story is definitely a good lesson for all retail investors but neither future growth company issuers nor investors should get caught up in it in the future. First North is intended for raising growth capital and it is a market that also welcomes brand new companies without long financial history. This means that the risks for the investors are also inevitably bigger. But that is the way it is supposed to be.

What to wish for 2024? Firstly, for the general state of economy to stabilise and improve – this is the first thing that has a positive impact on the public capital market. Secondly, for the state to execute the stock plans it has announced. And lastly, for investment courage to grow, especially towards equity instruments because as we can see - there is money and there is interest.

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## 2023 TRANSACTIONS DRAGGED ON IN REGULATORY WHIRLWIND

According to the new year's prognosis, regulatory whirlwinds are bound to make an already complex transactional environment increasingly difficult to navigate.

**Martin Mäesalu**, Partner | **Kevin Gerretz**, Senior Associate | Ellex in Estonia

In a post-inflation world, there are no significant deals that could escape merger control.

In Estonia as well as the other Baltic states, the turnover thresholds for merger control are very low. In Estonia it is 2 million euros (in Latvia 1.5 million, Lithuania 2 million) each for at least two parties and 6 million (in Latvia 30 million, in Lithuania 20 million) euros in total. As such, any significant transaction that might have an impact on Estonia will result in merger control proceedings in Estonia. More and more merger notices need to be submitted, more than in any other Baltic state. Turnover thresholds need special attention in 2024 - the turnover of 2023 is to be taken as the basis. Considering the level of inflation, the like which usually occurs in South-American countries, turnovers (although usually not profit) have increased significantly (at least in sectors where the volumes have not fallen). The somewhat outdated turnover thresholds will therefore probably in the coming years result in a record number of merger notices all three Baltic states - especially in Estonia and Lithuania. Until now, the record in Estonia has been 53 (in 2021) and 54 (in 2022) notices per year. Should the number of transactions come even close to 2021/2022 in the near future, these records will be broken.

One of the keywords in 2023 for merger control in Estonia has been longer deadlines for obtaining a merger permit. When previously a non-problematic merger could expect a positive decision even within two weeks, the recent trend has been leaning towards the end of the 30-days' procedural deadline. The timeline becomes considerably longer and unpredictable with a pan-Baltic deal which is subject to control in several Baltic states. In Lithuania the initiation of proceedings alone is very time-consuming and it is not unusual that there is already a merger permit in Estonia for the same transaction, while the Lithuanian competition authority has not even started the clock so to say. In practice it is possible to have merger control proceedings that take nearly a year. Moreover, it is clear that obtaining a permit for even slightly more complicated transactions is more and more difficult (if not impossible in certain conditions).

### **Public order and security are also key in addition to competition.**

In a geopolitical environment rife with conflict and tension, the strain has also spilled over to economy. On 1 September 2023, the FDI act entered into force in Estonia, subjecting to control any transactions that are relevant for public order and security. These include transactions where the acquirer or investor is either directly or indirectly (at the top of the ownership structure) a non-EU person and the target is an undertaking with public order or security relevance (e.g. critical service providers, major media companies, infrastructure companies and suppliers of military and dual use goods for state authorities).

The regulation applies to shareholding or voting rights of 10% or above this. This means that the matter might become relevant even when acquiring minority shareholding simply for financial investment purposes. And insofar as direct acquisitions are also included, a merger permit might be required in Estonia for an Estonian subsidiary of a group also in case of transactions that are concluded outside Estonia.

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Although for many acquirers the FDI control is nothing insurmountable, using more complicated corporate structures might create problems. It is also clear that while investors to the west of Tallinn might get the permit in a rather straightforward manner, investments to the east of Narva River are what cause worries, before and after the "Great Wall of China". This means that for some time now, when contemplating a transaction, the price in the binding offer has not been the only criterion and instead it is more and more about whether and when all pre-conditions of the transaction are met.

#### **What does this mean for the transaction parties?**

The short answer to this question is: a longer transaction timeline and uncertainty whether and under what terms the deal can be closed. Instead of the usual 30 calendar days, 6-7 months should be considered and even a year in case of Lithuania. To which the time for collecting (possibly also processing) information and the time and cost of preparing the notice is added.

The risks associated with permit proceedings need to be adequately mitigated and distributed already in the transaction documentation, which means that it is more and more common to discard a buyer for regulatory reasons. According to the new year's prognosis, regulatory whirlwinds are bound to make an already complex transactional environment increasingly difficult to navigate. But as Billy Ocean knew back in the 80s - When the Going Gets Tough, the Tough Get Going.

## 2023

The biggest transactions in 2023 in the Baltic states were done in Estonia or by Estonian investors.

The year 2023 was relatively modest for transactions. In general, Estonia followed the same trends as the rest of the world.

#### **Sven Papp, Partner | Ellex in Estonia**

Various sources report slightly varying data but in general we can still say that the number of transactions in 2023 was about a third lower than in 2022 and the total value of transaction values was also smaller by the same margin. The drop was slightly smaller in Estonia compared to the rest of the world - in 2023 Estonia reported 43 transactions exceeding 5 million euros (in 2022 there were 59) with a total value of 456 million euros (in 2022 the total value of transactions reported in Estonia was 1.4 billion euros).

The good news is that the biggest transactions in the Baltics in 2023 were either done in Estonia or by Estonian investors - the biggest Baltic transaction in 2023 was the acquisition of Latvian gas company Gaso by Infotar and Eesti Gaas, with capital raisings by Skeleton and Elcogen following in terms of volume.

Estonian companies were also indirect targets in several transactions, i.e. the respective transactions were done at parent company levels of Estonian undertakings. Of these transactions, the biggest were Nordic Capital's acquisition of a majority shareholding in Foxway (a global provider of tech equipment recycling services for promoting circular economy, Foxway's Estonian unit is Foxway's largest logistics and production centre with nearly 500 employees) and the acquisition of Modirum by Entersekt (global fintech company with its headquarters in Estonia).

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It was also special that one of the two IPOs in Europe in 2023 was in Estonia - the listing of Infortar on Tallinn stock exchange. History was also made on the Estonian stock market when Hagen Bikes which traded on the First North alternative market was declared bankrupt and Cleveron made a takeover bid to its investors and exited the First North alternative market. 2023 was also a year of important corrections for many companies that started trading on the First North alternative market a few years ago, evidenced in the sharp fall of the share prices.

2023 was not an easy year for startups either. Investors were less eager to shower startups with money and started paying more attention to the startups' actual ability to generate turnover and profit. It seems that the days when the burn rate of invested capital was translated rather unambiguously as the increase of company value are bygone. With less investments into startups, many of them were unable to demonstrate expected growth due to lack of money and were forced to downsize and lay off people. Well-known companies, such as Pipedrive, Veriff, Cleveron, Bally's and others announced redundancies. The worst-case scenario hit Eurora Solutions which in addition to redundancies had to declare bankruptcy and is currently under investigation for the whereabouts of 40 million euros of investor money.

In 2023 many companies announced large-scale lay-offs and downsizing and it is likely that there will be more such announcements in 2024.

The 2023 trends in the transaction world could be the following: negotiations of transactions and preparation of documentations is taking considerably longer time, which is down to several reasons.

One of these is definitely a significantly more complex economic environment which, on the one hand, has made possible quite a few transactions that in the good old times would probably not have been made, but on the other hand, companies are much more diligent and thorough when entering into agreements. The second reason is also the "price of money" - interest rates have made loan money much more expensive than it used to be, preventing companies from making too generous offers for acquiring companies. So, the purchases need to be deliberated and studied more thoroughly. This is also one of the reasons why less transactions are being made - there is a significant gap between the buyer's and seller's price expectations. The third reason is undoubtedly the stricter regulatory environment - the threshold for merger control proceedings in Estonia is very low and any slightly bigger transactions require a merger permit. As of 1 September 2023, foreign investment control also applies. These proceedings as well as preparing the necessary materials takes its time.

Another major evolving topic is ESG. ESG used to be pretty much a formality (a box ticking exercise), but it has become a very real issue that requires more and more attention in the preparatory stage of transactions as well as in shaping the everyday activities of companies after the merger. Today, it is acknowledged that ESG is such a wide field that it can be covered only in cooperation between the experts of different fields, meaning that only true team effort can yield substantial results.

ESG is also related to the increasing importance of gender quota in corporate governance which cannot be overlooked and where Estonian companies are not showing much progress.

In conclusion, although 2023 was not the best year for transactions, it would be unfair to complain too much. 2024 promises to be quite similar, at least the first half of it. But everything can change rapidly, for example, with good news of the war in Ukraine ending. There is still an abundance of free capital in the world (3.8 trillion USD was the last estimate that caught the eye) which could be temporarily satisfied with the yield of bonds or deposits but not for long - the purpose of such capital is to be used in the mergers and acquisitions of companies. So, there is no reason to be too pessimistic - transactions are not going anywhere, transactions are done in good times and bad, only the terms and conditions of the transactions are different in these times.

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TRANSACTION RADAR

We advise on matters concerning public and private sector mergers and acquisitions. See our [services and team on our website](#) and contact [risto.vahimets@ellex.legal](mailto:risto.vahimets@ellex.legal), +372 515 0949.

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