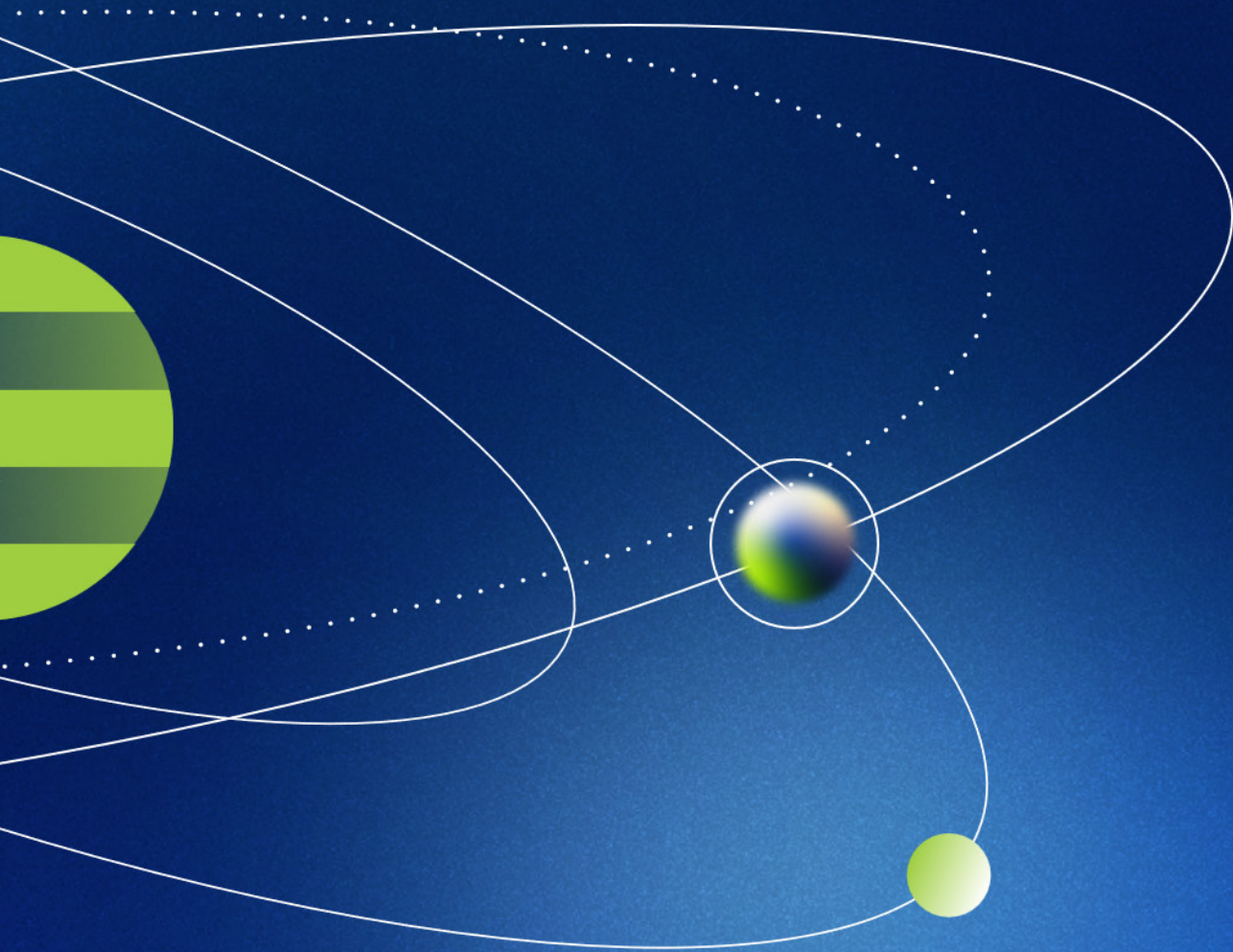


Ellex[®]

BALTIC M&A MONITOR 2024



 Mergermarket

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FOREWORD

Welcome to the 2024 edition of our Baltic M&A Monitor, a comprehensive review of M&A in the region published by Ellex, in association with Mergermarket. The report examines dealmaking trends in the Baltic countries – Estonia, Latvia and Lithuania – including insights into key sectors and forecasts for the year to come.

Despite serious international headwinds from high inflation and interest rates, war in Europe and concerns over the sustainability of growth in the US and China, the Baltic countries experienced a lively year of dealmaking in 2023. In total, there were 134 deals worth an aggregate publicly declared value of €1.1 bn, the third-highest volume since 2008, and the sixth-highest value over the past decade. While volumes dropped 12% from 152 and values 54% from an aggregate €2.4bn in 2022, that year was an unusually active one, as the European M&A market enjoyed a rebound from the pandemic and related global recession, supported in part by a glut of government financing.

In 2023, such funding tapered down and soaring interest rates damped appetite, particularly for leveraged finance. Dealmaking remained geographically diversified, with Lithuania accounting for 43% of transactions, Estonia 37% and Latvia 20%.

The region remains a magnet for foreign investment. Inbound investors accounted for 59% of deal value and 41% of volume. Six of the top 10 deals involved foreign buyers, featuring bidders from Germany, Japan, South Korea and three from the US. The region's highly skilled workforce, history of technical innovation, supportive governance, and political and economic stability rooted in EU and NATO membership are all key factors attracting international funds and corporates.

Those factors have supported the growth of one of the world's most competitive tech industries, which, combined with global investment trends, has kept the technology, media and telecoms (TMT) sector at the forefront of dealmaking in the Baltics. TMT deals accounted for 26% of total deal activity and 49% of aggregate value in the 2022/23 period. The region's tech start-ups are well-known, but its strengths are also having an impact on sectors such as telecoms, manufacturing, energy and defence.

The energy, mining and utilities (EMU) sector saw two of the top 10 deals, specifically the two largest overall, which both involved Latvia's national gas utility, Latvijas Gāze. Moves to strengthen the region's energy security and reduce dependence on Russia were important factors behind some recent deals. Looking ahead, it is likely that the renewables segment will attract increasing attention.

As we enter 2024, the global economic outlook is brightening. Inflation is dropping rapidly, with the expectation that interest rates will follow. All three Baltic countries are expected to experience respectable growth in 2024. These factors should bring renewed momentum to dealmaking, particularly if global and domestic private equity (PE), already cash rich, returns to the fray. The opportunities that abound in the Baltic region are testament to its economic diversity. While TMT and EMU will continue to be significant drivers of activity, the financial services sector is looking increasingly lively, and we expect to see growing interest in areas as diverse as consumer, healthcare and defence.

As ever, we welcome feedback from readers, and hope you find this report both engaging and enlightening.

M&A OVERVIEW 2023

High inflation and interest rates, an ongoing war in Ukraine and a slowdown in China – it has been a difficult year for markets internationally. Yet the three Baltic countries achieved the third-highest volume of M&A deals since 2008.

The region's strengths continue to assert themselves: a highly educated workforce that has nurtured high-tech industries; a proactive approach to attracting investment; natural resources, from forests to wind power; and the security and stability that comes from membership of the EU, NATO and eurozone.

The Baltic economies have been more adversely affected by the global headwinds of the past year than much of Europe and, indeed, the world. The International Monetary Fund (IMF) estimates that Estonia's economy shrank by 2.3% and Lithuania's by 0.2%, with only Latvia registering growth, and that a sluggish 0.5%. To put this in context, the eurozone as a whole grew by a fairly meagre 0.7%, and advanced economies as a whole by 1.5%, partly thanks to a relatively strong performance by the United States (2.1%).

Inflation has also been persistently high, running at 10% in Estonia for the full year, 9.9% in Latvia and 9.3% in Lithuania, according to IMF estimates. In response, the European Central Bank has raised rates in a cycle starting in mid-2022, with its deposit rate rising from -0.5% to an all-time high of 4% in September 2023.

In the Baltic countries, 134 deals worth a combined publicly declared value of €1.1bn were announced in 2023, down 12% and

Cool markets, hot valuations

"We saw very, very active years in 2021 and 2022 due to the large inflow of money related to Covid relief funds. Meanwhile, interest rates have gone up and, for private equity, it's more challenging to leverage transactions. Sellers have not adjusted their valuations and are expecting the same prices as 2021/22, when the market was very hot. Yet, in 2023, deal volumes remained among the highest on record if you strip out 2021/22."

Filips Klavins, Senior Partner, Ellex in Latvia



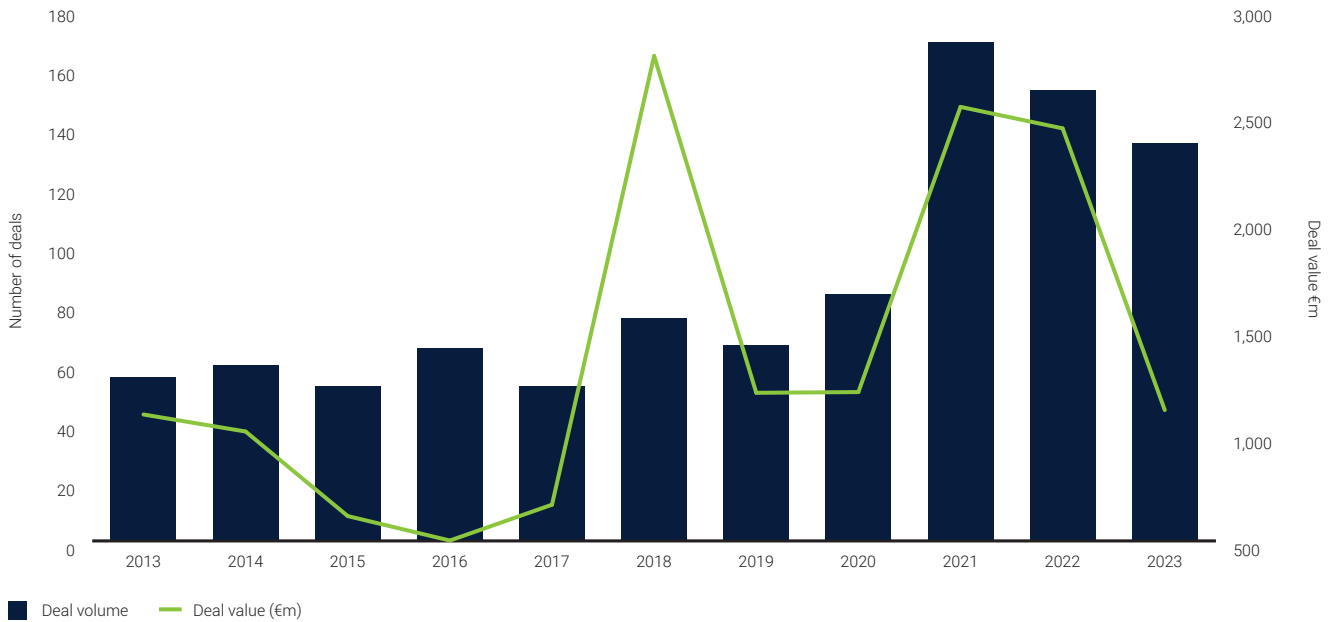
Estonia: Immediately global

"The technology sector in Estonia is very different – it's immediately global. The investors are the likes of Hyundai or Panasonic or Siemens. There are global players, there are different rules."

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



Baltic M&A, 2013-2023

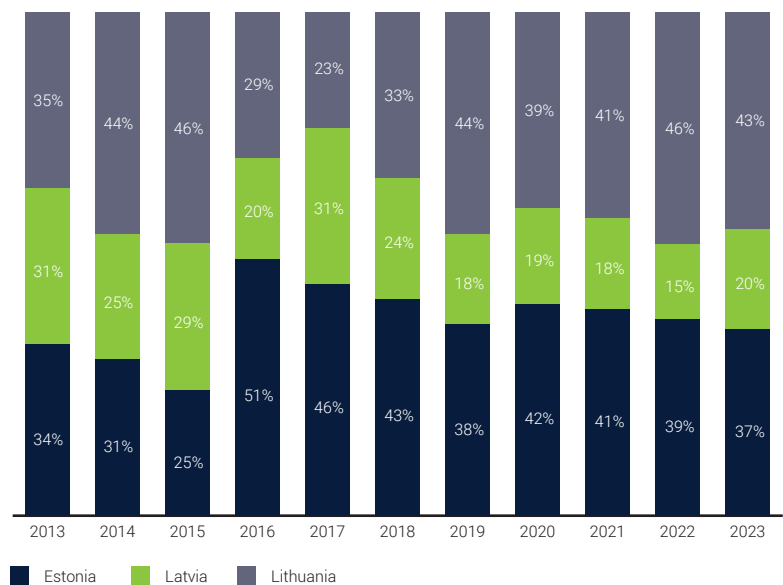


54%, respectively, on 152 deals worth €2.4bn announced in 2022. It is worth noting that the aggregate value does not include deals for which no valuation was announced publicly, some of which are likely to have been significant.

Only three deals announced in 2023 crossed the €100m threshold, while the top 10 deals totalled €730m. By contrast, in 2022, the largest deal – Bolt Technologies’ fundraising from a consortium of investors including the US’s Sequoia Capital – was worth €628m by itself.

Of all the deals announced in the Baltics in 2023, 43% involved Lithuanian targets, keeping Lithuania at the top of the table in deal volume, albeit down slightly from its 46% share in 2022. Estonia’s share of regional M&A volume also slid, from 39% to 37%, while Latvia’s rose by five percentage points to 20%, its highest share since 2018 (24%).

Baltic deal volume by country, 2013-2023



Top 10 Baltic M&A deals 2023

Date announced	Target company	Sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value €(m)
14-Apr-23	Gaso AS (100% Stake)	Energy, Mining & Utilities	Latvia	Infortar AS; Eesti Gaas AS	Estonia	JSC Latvijas Gāze	Latvia	120
24-Nov-23	JSC Latvijas Gāze (28.97% Stake)	Energy, Mining & Utilities	Latvia	Energy Investments SIA	Latvia	Marguerite Adviser SA	Luxembourg	111
13-Oct-23	Skeleton Technologies OU	Industrials & Chemicals	Estonia	Siemens AG; Marubeni Corporation; Siemens Financial Services GmbH; Companhia Brasileira de Metalurgia e Mineracao (CBMM)	Germany			108
28-Sep-23	Nordsec BV (3.33% Stake)	TMT	Lithuania	Warburg Pincus LLC; Novator Partners LLP; Burda Principal Investments GmbH & Co KG	USA			95
17-Jul-23	PVcase UAB	TMT	Lithuania	Highland Europe (UK) LLP; Elephant Partners; Energize Ventures LLC	USA	Contrarian Ventures	Lithuania	89
10-Jul-23	Skeleton Technologies OU	Industrials & Chemicals	Estonia	Marubeni Corporation	Japan			50
11-Oct-23	Elcogen Group plc	TMT	Estonia	HD Korea Shipbuilding & Offshore Engineering Co Ltd	South Korea			45
29-Jun-23	Furniture1 UAB (20.1% Stake)	TMT	Lithuania	Pijus Makarevicius (Private Individual)	Lithuania	BHG Group AB	Sweden	43
06-Apr-23	Hohle OU (100% Stake)	Construction	Estonia	Aptiv plc; HellermannTyton Ltd	USA	Lagrotte OÜe; Net Systems OU	Estonia	39
03-Jul-23	Intrum Estonia AS (100% Stake); Intrum Latvia SIA (100% Stake); Intrum Lithuania UAB (100% Stake)	Business Services	Latvia	Aktiva Finance Group	Estonia	Intrum AB	Sweden	30

With a population of 2.8m, Lithuania's market share can largely be explained by its larger market size, against 1.9m for Latvia and 1.3m for Estonia. Estonia thus had the highest number of deals per capita in 2023, reflecting its position as the country which also has the highest nominal GDP per capita in the region – and, by some measures, the largest number of start-ups per head globally.

Foreign investors' presence grows

Inbound international investors accounted for 41% of transactions by volume in 2023, down four percentage points from 2022. However, they contributed 59% of deal value, showing that while international investors tend to make fewer transactions, they generally focus on larger

targets. Indeed, six of the 10 largest deals of 2023 involved bidders from outside the region.

The geographical spread of these bidders is indicative of how the Baltics are firmly on the radar of investors from around the world, with buyers from as far afield as South Korea and Japan. Three of the largest deals involved US bidders, maintaining a trend of substantial US interest in recent years, with the strong defence and diplomatic relationship between the US and the Baltic region reflected in strengthening economic ties.

Investors from the US have been behind several of the landmark deals in recent years, including Blackstone's 2018 €1bn acquisition of a 60% stake



in regional bank Luminor (which was followed by the US investor increasing its share to 80%), and Bolt's capital raising from Sequoia. Foreign investors' presence has grown considerably, having accounted for just 19% of total deal value a decade ago.

As for domestic dealmaking, it is vibrant and growing. Domestic transactions have outnumbered inbound deals in volume terms for five consecutive years, while regional investors have contributed a growing share of aggregate deal value in each of the last three years, from 18% in 2021, to 23% in 2022 and 41% in 2023.

Bucking the international and regional trend, Latvia's deal volumes and aggregate value both increased in 2023. The country generated 27 deals, with publicly declared value totalling €351m – up 17% and 27%, respectively.

Overall value was boosted by a brace of big transactions, with Latvian targets in both of the two biggest M&A deals announced in the region during the year, which between them contributed two-thirds of recorded deal value in Latvia in 2023.

One company, two huge deals

Lithuania generated 58 deals worth a combined €298m in 2023, down 17% and 59%, respectively, from the 70 deals worth €723m announced in 2022. Lithuania contributed three of the top 10

Homeward bound

"Local funds have dry powder and are either buying companies in new sectors or making a lot of add-on transactions to consolidate markets. We have players like BaltCap and Livonia Partners, and some funds are following international trends in making acquisitions in sectors including healthcare, assisted living and waste management. This could lead to a medium-term rise in inbound transactions, as domestic funds sell consolidated assets to international buyers."



Robertas Čiočys, M&A Partner, Ellex in Lithuania

Varied picture

"We have our usual picture of a mix of all types of different kinds of M&A in Latvia. We have IT work going on, we have a port infrastructure project, we've done a medical-services transaction, we worked on the Gaso deal. The banking sector has been active, too."



Raimonds Slaidiņš, Senior Partner and Head of Corporate and M&A practice, Ellex in Latvia

deals. Estonia saw 49 deals worth a combined €465m in 2023, down 17% and 68% from the 59 deals worth €1.4bn announced in 2022.

Latvijas Gāze, Latvia's national gas supplier, was involved in both the two largest deals in the Baltics. In the largest transaction, Estonian energy company Eesti Gaas acquired the Latvian gas distribution network of Gaso, a Latvijas Gāze subsidiary, for €120m. The sale is part of Latvijas Gāze's ongoing strategic plan to streamline its operations and focus on its core business: wholesale and retail trading of gas. It also removes a strategically important company from the influence of Russia's Gazprom, which has a 34% stake in Latvijas Gāze.

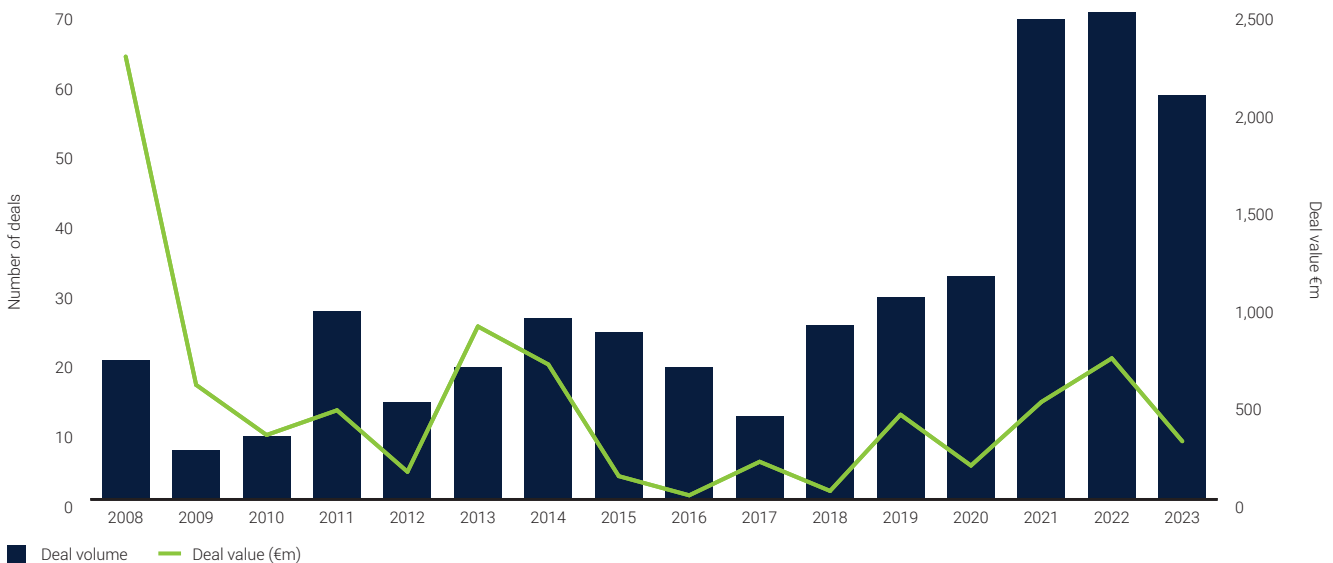
The long view

"Obviously one always compares to the previous year and aims to do better than last year, but if you take the long-term view, the performance wasn't bad at all. And I understand that the monetary value we earned out of M&A activities was actually better than last year. Most of the transactions didn't have publicly declared values. There's an element of luck on which deals go public with numbers."

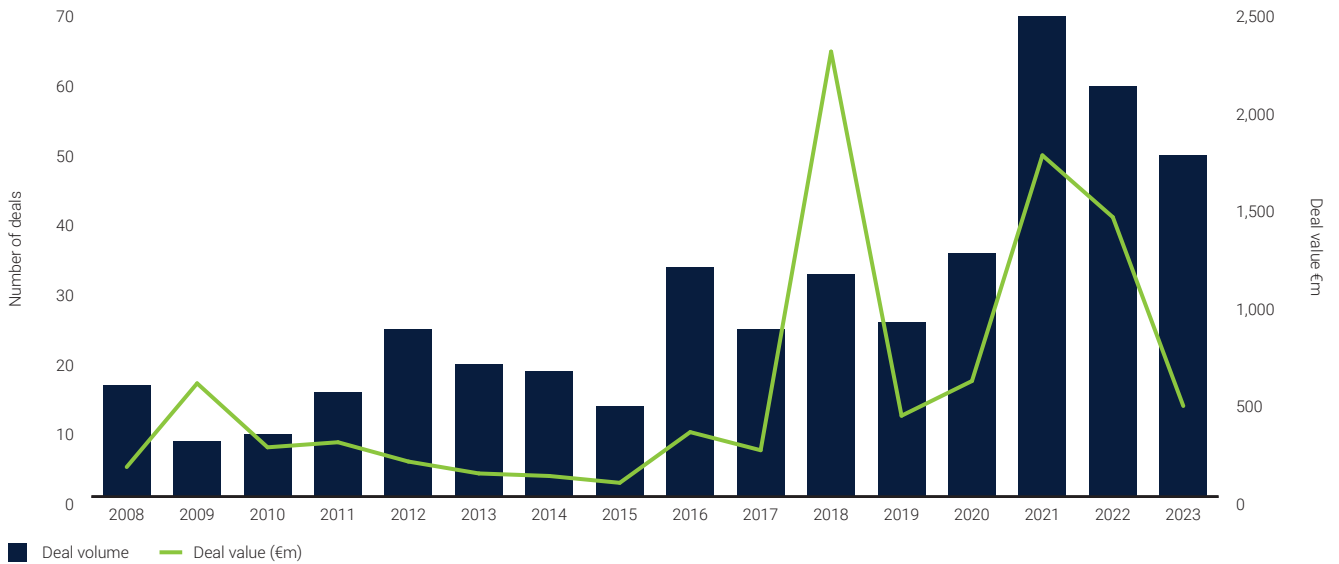


Risto Vahimets, Partner and Head of Transactions, Ellex in Estonia

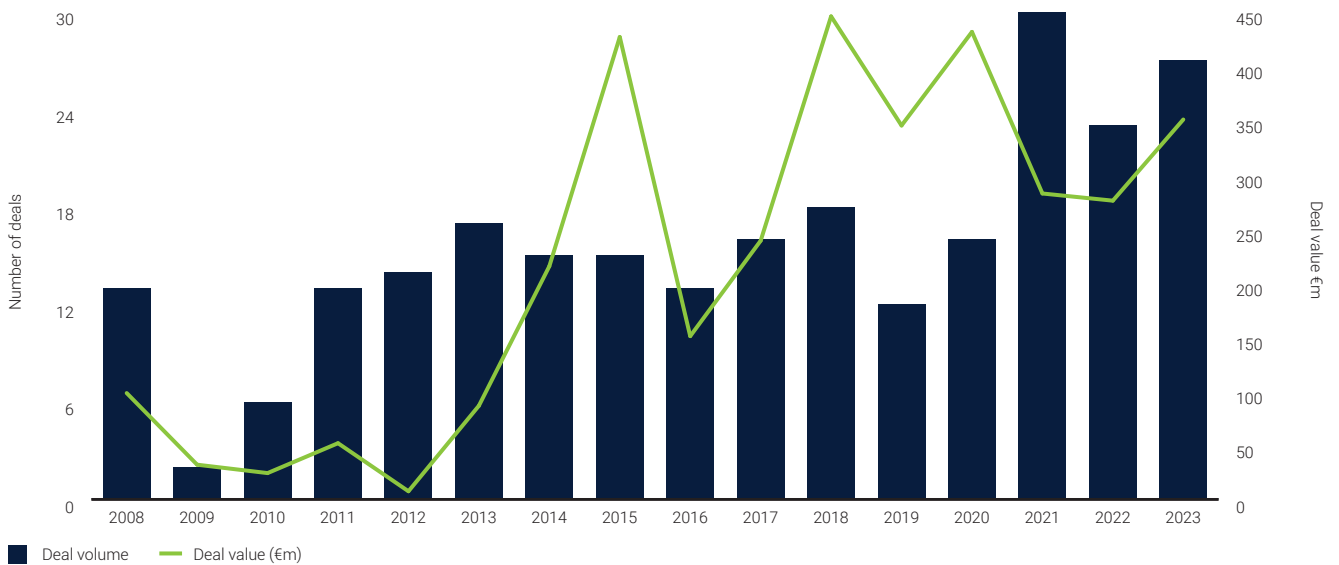
Lithuania M&A, 2008-2023



Estonia M&A, 2008-2023



Latvia M&A, 2008-2023



The second-largest deal of the year in the region was Latvian investment company Energy Investments' acquisition of a 28.97% stake in Latvijas Gāze from Marguerite, the Luxembourg-based investment adviser which manages the infrastructure-focused Marguerite funds backed by the European Investment Bank. The €111m deal was part of a management buyout and follows Marguerite initiating its divestment plan for the asset in 2020. Latvijas Gāze said the deal will enable it to "not only maintain its position as one of the Baltic energy leaders, but also lead the way in innovative products and services based on the major international market trends", including "expansion into the Baltic renewables market".

Energised transactions

Estonia's lively market contributed to four of the top 10 deals of 2023 – two of them involving the same target, energy storage specialist Skeleton Technologies. In the third-largest regional transaction of the year, Skeleton secured a €108m debt and equity financing round in October led by major investors, including German technology giant Siemens and Japanese trading and investment company Marubeni Corporation.

That followed a smaller deal – the sixth largest in the Baltics in 2023, and Estonia's second largest – in which Skeleton raised €50m from Marubeni in July. Skeleton is currently developing what it calls its superbattery, "a next-generation storage battery" with various potential applications, including "renewable-energy generation, electric and hybrid vehicles, battery railcars and electric ships".

Thus, despite a difficult global economic situation and local factors that led to two of the region's three economies tipping into recession, dealmaking has continued at a steady clip. With the expectation that interest rates will start to decline in the first half of 2024, and international and regional investors still relatively cash rich, the outlook for the coming year is positive.

Safety and stability

"When big players come here, they show it's a stable economy, a safe economy, not threatened by the war in Ukraine. It shows trust and confirms what we're trying to show people: it's a great region to invest in."



Rūta Armonė, Partner and Co-head of Corporate and M&A practice, Ellex in Lithuania

Political deal

"The Gaso transaction was driven by the war in Ukraine and was a politically driven deal. It secures the safety of Latvia's gas infrastructure, and gave Eesti Gaas an opportunity to expand, but was something of a one-off, rather than indicating a trend towards consolidation in the sector."



Māris Brizgo, Associate Partner and Head of the Public Procurement practice, Ellex in Latvia



THE BALTICS IN THE EUROPEAN CONTEXT

The Baltic region performed roughly on par with the continent as a whole in volume terms, with a drop of 12%, but its 54% decline in aggregate value was more marked.

Across Europe, 14,642 M&A transactions with a combined publicly declared value of €741.5bn were announced in 2023, down 11% and 26%, respectively, from 16,541 deals worth just over €1tn in 2022. In markets of the size of the Baltic region, individual deals have a greater effect on total value.

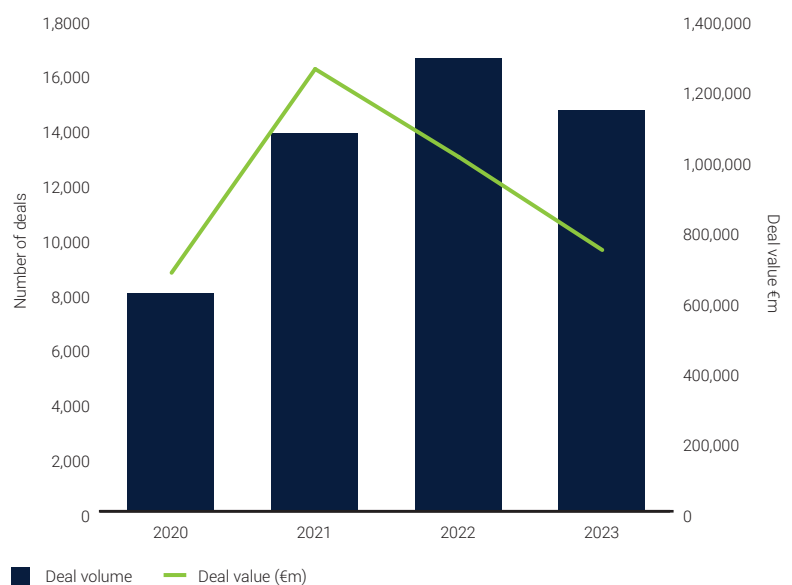
Europe's private equity (PE) sector experienced a similar decline to the M&A market, with 3,438 deals worth €252.8bn announced in 2023, down 15% and 34%, respectively, from the 4,043 PE deals worth €382.2bn in 2022. These drops in activity are less pronounced than those in the Baltic region, where volume fell by 50% and total value by 80%. This partly reflects the significant contribution of PE buyers to dealmaking in 2022, but also the more-constrained interest rate environment, which has made leveraged finance deals less appealing.

As in the Baltic region, Europe-wide dealmaking performance dropped off from record highs in 2021/22 but remained solid by historical standards. It was comparable with 2020, for example, when just 7,953 deals worth a total of €677bn, and 2,363 PE deals worth €271bn was done on the continent.

Europe's top sector in both volume and value terms was TMT, which recorded 3,275 deal announcements in 2023, 22.4% of the total across

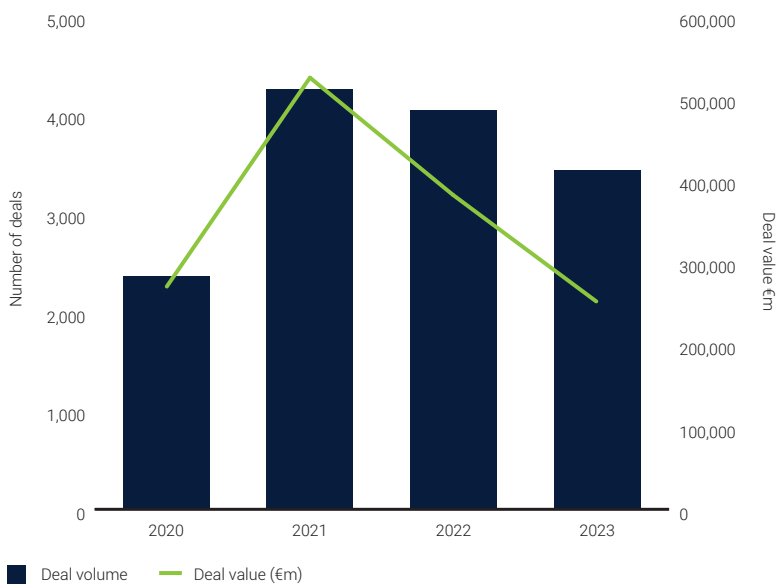
all sectors. These transactions were worth a combined €159.2bn – 21.5% of the total. Three of the top 10 deals continent-wide were in TMT, including the top transaction of the year: US PE giant KKR's acquisition of fibre-network company FiberCop from Italian telco TIM for €27.1bn. The TMT sector remains perennially appealing to investors, with high public demand for broadband

European M&A, 2020-2023





European private equity, 2020-2023

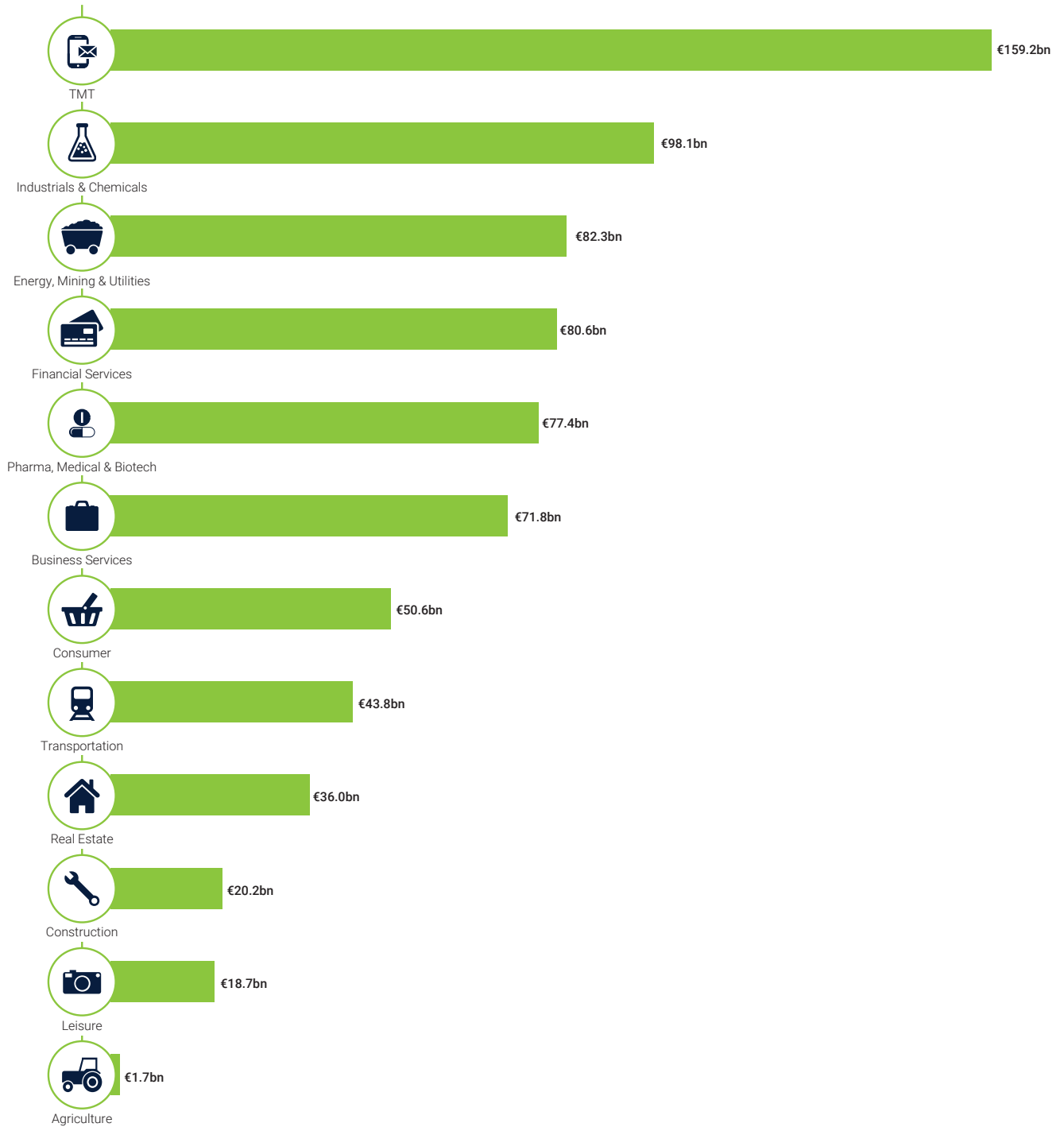


and mobile phone connectivity, growing take-up of 5G-enabled and Internet-of-Things devices, and the huge crop of tech start-ups the continent produces. On the media side, legacy outlets, including broadcasters and newspapers, continue to change hands for sizeable sums.

Industrials and chemicals (I&C) ranked second on both volume and value, contributing 16% of total European deal volume and 13.2% of total deal value.

The business services sector was almost as busy in volume terms (15.8%), though it ranks just sixth on aggregate value contributed (9.7%). The second-largest European deal of the year fell into this category, with US grains merchant Bunge merging with Viterro, the Glencore-backed, Netherlands-based grain-handling business, in a deal worth €16bn.

European M&A value by sector 2023



As in the Baltics, US bidders had an outsized influence on the largest deals announced throughout Europe in 2023, with US investors involved in three of the five biggest transactions, including the two largest.

Baltics punch above their weight in CEE

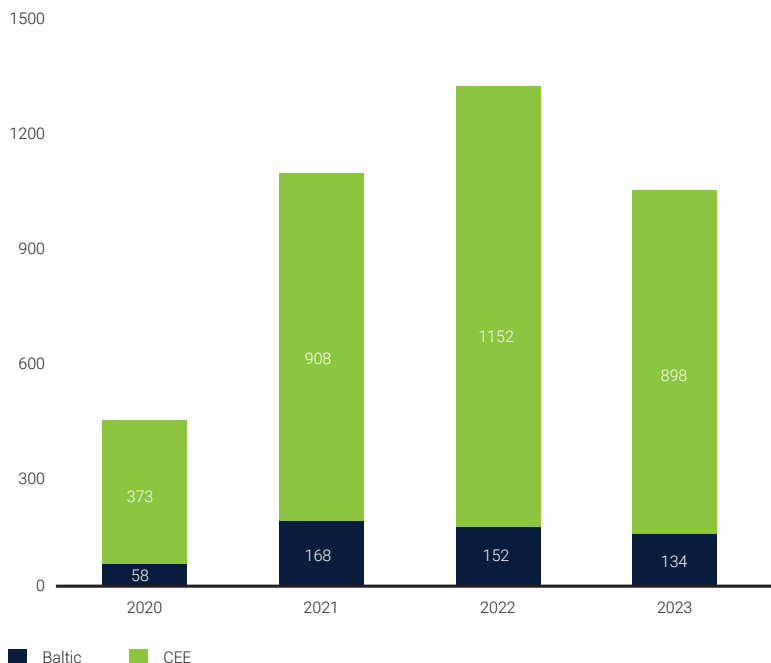
In Central and Eastern Europe (CEE), 898 deals worth a combined €36bn were announced in 2023, down 22% and 13%, respectively, from the 1,152 deals worth €41.2bn in 2022. As with the pan-European picture, while the year-on-year drop in CEE deal volume is greater than that logged in the Baltics, the former suffered a less-pronounced decline in value terms. More broadly, the Baltic region is affected not only by European trends, but CEE-specific ones.

The Baltic countries contributed 13% of all transaction volume across CEE, up from 12% in 2022, an impressive performance, given the market's relatively small size. However, the region's share of CEE aggregate deal value fell from 6% to 3%.

Across CEE, there were 11 transactions worth more than €1bn. The top deal involved the UAE's Emirates Telecommunications Group acquiring a controlling stake in telecoms assets owned by Czech-based investment group PPF in Bulgaria, Hungary, Serbia and Slovakia – again showing the TMT sector leading the way. Another big TMT transaction – the sixth largest of the year overall in CEE – was the acquisition of a 67% stake in Techland, the Polish video-games developer, by China's Tencent, one of the world's largest gaming companies.

These transactions indicate the growing appeal of CEE to investors from around the world. Seven of the eight biggest CEE deals were led by bidders from outside the region, with buyers from the US, Western Europe, the Middle East and East Asia involved.

Baltic v CEE M&A volume, 2020-2023



■ Baltic ■ CEE

Europe and the Baltics move together

"Following Mergermarket coverage of the largest deals in Europe, we can see that almost everything that's going on in the European context also applies to the Baltics. So we all have low GDP numbers, high inflation and high interest rates. Acquisitions are thus more expensive, and that's had an effect across Europe, as it has in our small markets. But then you have the megatrends of investment in energy, healthcare and defence that fit quite perfectly with what's happening here."



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

SECTOR WATCH AND PRIVATE EQUITY

Private equity and venture capital have become a lively part of the Baltic region's dealmaking landscape over the past decade, with both international investors and local funds leading transactions.

Just 20 private equity (PE) deals targeting Baltic companies were announced in 2023, down 50% from 2022's 40 PE deals. Those 20 transactions were worth a combined €289m, down 80% from the €1.5bn worth of Baltic PE transactions announced in 2022. This reflects the cooling of the global and European PE markets as high interest rates made leveraged finance deals less appealing.

Nonetheless, PE continued to play an important role in M&A in the Baltics. Two of the 10 largest deals of 2023 involved PE investors on either the buy or the sell side – though this was down from six in 2022, when the two biggest deals of the year involved PE.

In the largest Baltic PE deal of 2023 – the fourth biggest overall – Lithuanian VPN specialist Nordsec raised €95m in a funding round led by Warburg Pincus, the New York-based PE investor. The deal valued Nordsec at €3bn, and the company said it would use the funds to expand its product offering and accelerate growth through strategic mergers and acquisitions.

The second-biggest PE deal also involved a US investment in Lithuania. PVcase, a global leader in design software for solar projects, secured a joint investment of around €89m from

Texas-headquartered Highland Capital, Chicago-based Energize Ventures and Boston-based Elephant Partners.

While the overall picture is of a drop in PE, major deals by US investors indicate the appeal of the Baltics to international private investors, while domestic funds have remained active.

As 2024 progresses, the broad market expectation is that interest rates will go down, bringing new momentum to the PE market.

Local appeal

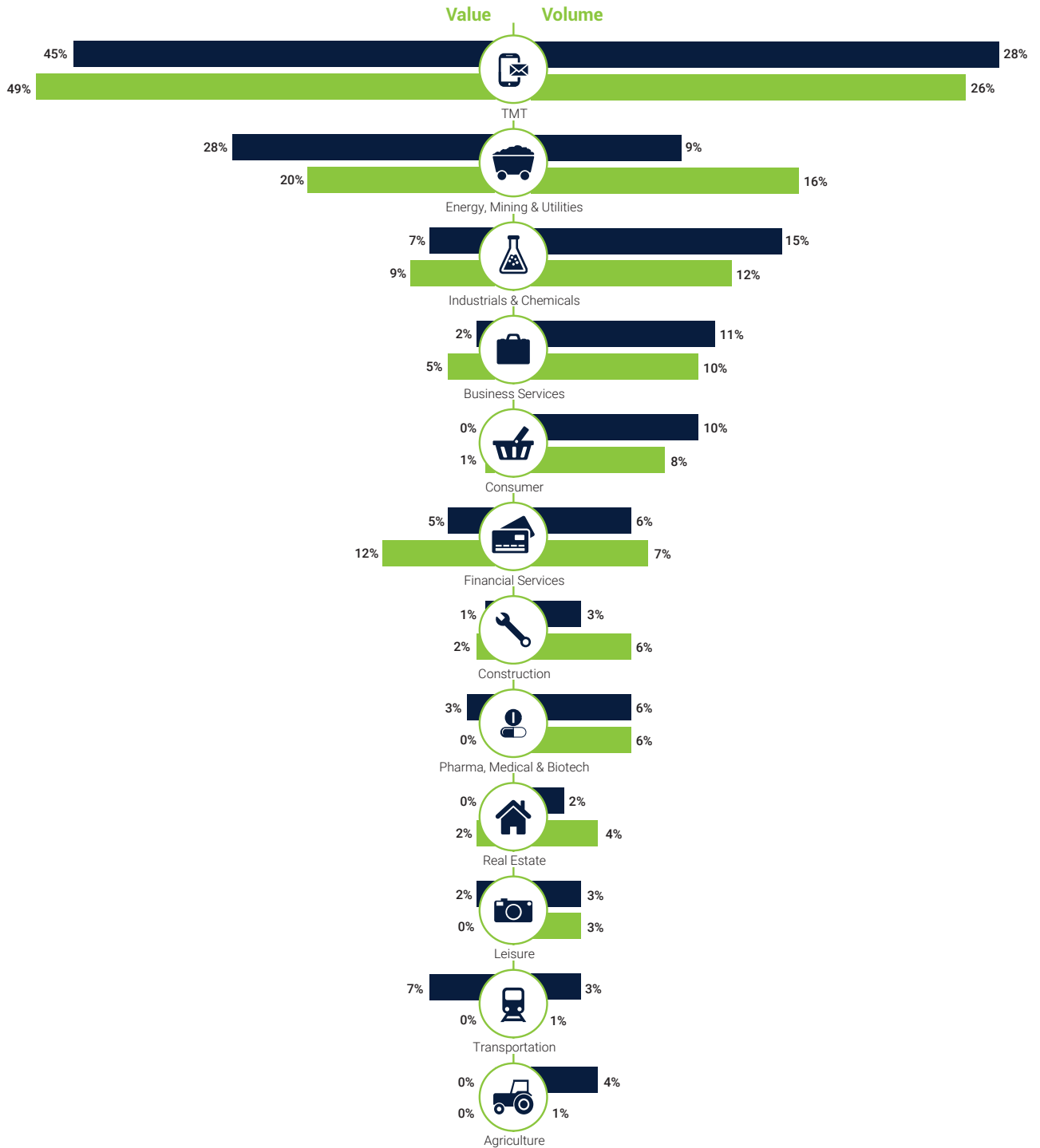
"Local PE funds are using the situation to make acquisitions. Usually, Polish or UK-based private equity funds that are active in the market outbid local players, but they have been less active in the market. Local players are moving in while there's a slowdown in international dealmaking and they can make deals at better valuations."



Robertas Čiočys, M&A Partner, Ellex in Lithuania

Baltic M&A volume and value by sector

2020-2021 2022-2023



Internationally, funds have been sitting on large cash commitments that they will be keen to deploy when the time is right. With the Baltic countries clearly on the radar of major funds from around the world, as well as having home-grown investors, an uptick in PE activity in the region seems likely.

The regional venture-capital scene remains dynamic, with local investors – including founders who have exited – as well as EU-backed funds and international companies all active. This should support a longer-term pipeline for PE and other investors as businesses grow.

Focus on tech drives success

In addition to the Nordsec and PVCcase transactions, the Baltic TMT sector generated two further top-eight deals across all industries in 2023. Korea Shipbuilding & Offshore Engineering, part of the HD Hyundai Group, one of South Korea's leading conglomerates, made a €45m strategic investment in Estonia's Elcogen, a clean-energy technology group, and the founder of Furniture1 bought back a 20% stake in the Lithuanian online retailer from Sweden's BHG Group, for €43m.

These deals helped the TMT sector to secure the top spot in the Baltics in M&A volume and value terms in the period 2022/23, contributing 26% of total deal activity, down only marginally from 28% in 2020/21 and almost half (49%) of aggregate deal value in the region – up from 45% in 2020/21.

The region, especially Estonia, has become known as a global centre for tech start-ups, leveraging its excellent technical education, supportive government policy and the rapid adoption of technology by regional governments and companies. Twenty years after Skype, the internet telephone leader, was founded with Estonian developers, the regional tech ecosystem is world-leading, with cash from exits recycled to build the next generation of businesses, which are increasingly diverse.

A small country with big dreams

"Skype got a deal with Microsoft and the rest is history. The founders made money and started re-investing it, as did other Skype employees. They saw that it was possible not only to make a lot of money but to realise their dreams and use their technological skills. It's an avalanche, with other companies following it, and this has spread from fostering pure IT companies to companies like Skeleton, which are producing their supercapacitor batteries. For a small country, we can point to a number of individual success stories."



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

Look north

"Most companies that invest in the Baltic region already have a presence somewhere in Europe. And many that come to Lithuania are already in Poland. Lithuania is a natural extension."



Rūta Armonė, Partner and Co-head of Corporate and M&A practice, Ellex in Lithuania



Latvia is becoming a test bed for 5G and even 6G technologies, including in the defence sphere, while both Latvia and Lithuania have increasingly active fintech sectors. Legacy telcos are often involved in supporting up-and-coming telecoms and tech businesses, while banks see fintechs as a means to further growth.

Clean and green

The EMU sector was the busiest after TMT, contributing 16% of transaction volume in the 2022/23 period, up from 9% in 2020/21. Transactions in EMU accounted for 20% of aggregate deal value in the period 2022/23, thanks in large part to the Gaso and Latvijas Gāze transactions, the two biggest in the Baltics overall across all sectors. Though down from the 2020/21 period, when EMU accounted for 28% of aggregate deal value in the Baltics, the sector remains a key locus of activity.

In addition to the Latvijas Gāze-linked deals, the EMU sector also generated the eleventh-largest transaction in the Baltics in 2023, in which the European Bank for Reconstruction and Development, the UK-based multilateral institution, made a €30m investment in pan-Baltic and Polish

solar-power producer Sunly. The investment will enable Sunly to expand its renewable-energy capacity in the region.

In October 2023, the Lithuanian government confirmed that a joint venture between Spain-based Ocean Winds and local provider Ignitis Renewables had won the country's first offshore wind-power development tender; the second is due in January 2024. There was also a flurry of transactions in Latvia in early 2023 ahead of a March deadline for the development of previously awarded renewable-generation allocations.

The EMU sector is likely to remain a major driver of dealmaking in the years to come, with the renewable-energy segment, in particular, drawing in both private investment and government and EU funds. The development cycle for renewable energy in the region often entails successive transactions, engaging both international and domestic businesses.

The financial services sector recorded the biggest period-on-period jump in the share of aggregate deal value, from 5% in 2020/21 to 12% in 2022/23, ranking it third overall. This was despite its share

of total deal volume rising only marginally, from 6% to 7%, making it just the sixth-busiest sector for M&A in the Baltics over the same time, and without contributing to a top-20 deal in the region in 2023.

In December, Latvian boutique Signet Bank completed the acquisition of LPB Bank, another domestic lender. LPB's main shareholder had faced legal issues, so the transaction may not necessarily be a harbinger of further consolidation in the market, but it may have some impact on the sector, as Signet plans to focus its new subsidiary on the growing fintech market.

The financial services industry experienced a rare initial public offering (IPO) in 2023, with Latvian pension management company Indexo raising €7.5m in July. It raised a further €9m in a stock offering in December, the largest sum raised on Latvia's public equity market in the past decade. IPOs were few and far between across Europe, with the Baltics making an outsized contribution; Estonian investment holding company Infortar raised €31.2m, also in a December offering.

Have suitcase, will travel

The coming year could see further stock market activity, with Latvian government-owned airline Air Baltic – a leader in regional connectivity – preparing an IPO, and Indexo's new banking arm also planning to float.

Air Baltic will be an interesting proposition, as tourism and transport are likely to continue to pick up after the pandemic, during which these sectors were affected by lockdowns and travel restrictions. The leisure sector accounted for only 3% of deal volume and negligible aggregate value in 2022/23, while transportation accounted for 1% of volume and negligible value. Yet the scope for growth is considerable. With beautiful cities, pristine countryside and coastline, as well as historical sites, all three countries appeal strongly to international tourists. Air Baltic and international budget airlines connect the countries' capitals with cities across Europe, while cruise ships regularly visit the coast.

A fair wind

"Usually, the projects are started by local developers, then at the construction permit stage, it's transferred to a foreign investor, then transferred to a third investor. Offshore wind developments definitely attract big-name investors, often in consortium with a local developer or other local company. The likes of GE compete for the construction phase. It's good for our ecosystem, it's good for the energy sector that there is more money flowing into the area, and we expect more transactions related to energy."

Rūta Armonė, Partner and Co-head of Corporate and M&A practice, Ellex in Lithuania



Defence mechanism

"The defence sector will be interesting, moving forward. It's obviously of very serious strategic concern here, and the Latvian government has come out strongly regarding establishing defence manufacturing within the country; there's talk of establishing a government company that would oversee these operations."

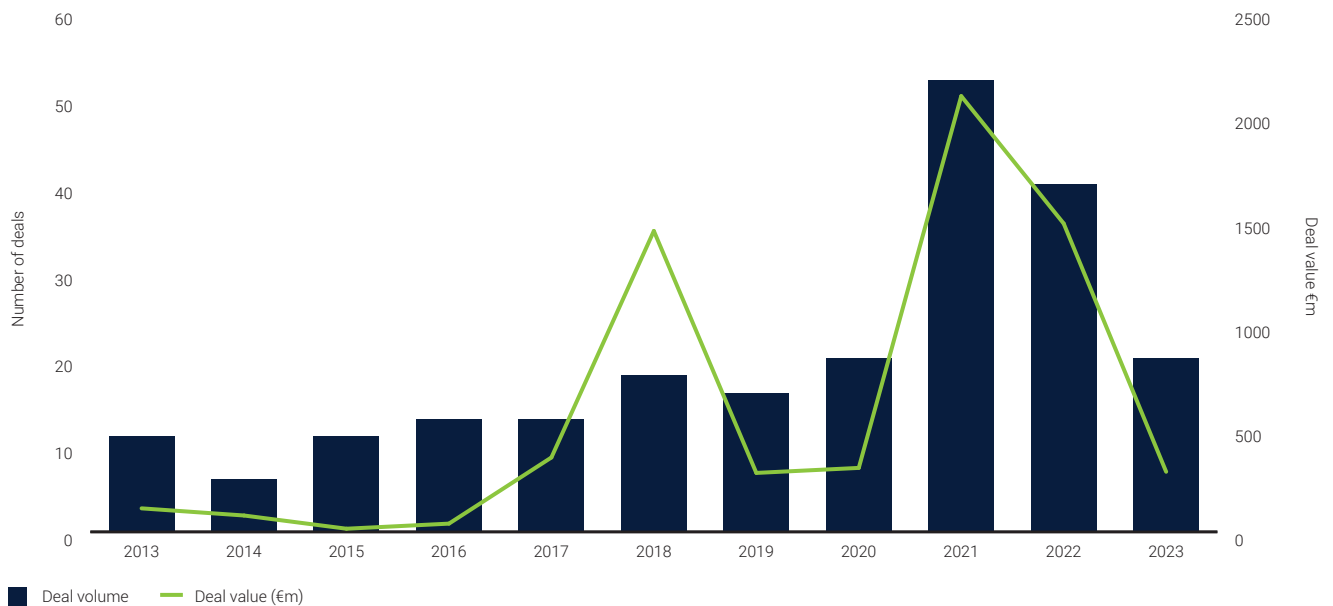
Raimonds Slaidiņš, Senior Partner and Head of Corporate and M&A practice, Ellex in Latvia



Tourism accounts for around 5% of GDP in all three Baltic countries, according to the OECD.

The two Skeleton Technologies deals boosted the I&C sector, which ranked fourth in aggregate deal value, with 9% of total value in 2022/23, up from 7% in 2020/21. And while the sector's share of total volume dropped from 15% to 12% in the same timeframe, it remained the third-biggest contributor.

Baltic private equity, 2012-2022



In a significant deal, Latvian clean-tech start-up Aeronex secured €28m in financing from a range of investors, including France’s Future Positive Capital. The deal is typical for the region: innovative, green companies being backed by both international and domestic investors.

With the war in Ukraine continuing, and the three Baltic states acutely aware of security risks, defence is another area to watch – with the potential to feed into TMT and I&C in particular.

While it has been a slower year for M&A than the bumper 2021/22 period, the Baltic market has held its own and achieved some of the best figures of the past decade – and this despite the war being waged by their easterly neighbour, Russia, in Ukraine. A brightening of the global market situation in 2024 would bode well for the Baltics.

Return to equity

“I don’t expect that deal flow will pick up enormously in the first half of 2024. But during the second half of the year, funds that are sitting on large amounts of cash will come back to equity investments, as they offer better returns than time deposits or bonds. Their business is to invest in equity – and they’ll return to that pretty quickly.”

Sven Papp, Partner and Co-head of Transactions, Ellex in Estonia



BALTIC OUTLOOK 2024

Given the Baltic countries' competitive advantages, 2024 is set to be a good year for dealmaking in the region.

After a strong year in 2023, despite global headwinds and local recessions – and albeit with a drop in activity from the exceptional 2021/22 period – the Baltic region can look forward to a solid year of dealmaking in 2024. With interest rates forecast to trend downwards, financing should be easier to access and private equity (PE), in particular, is expected to be more active.

Unsurprisingly, given its strengths across the region and its appeal to investors globally, the TMT sector looks set to experience the most activity throughout the year. According to Mergermarket's intelligence tool, the platform is tracking 45 'companies for sale' stories in the Baltics as of early 2024, with 14 of these (31%) relating to assets in TMT. As the regional tech ecosystem has grown over the past two decades, producing world-leading companies and fostering one of the globe's most vibrant start-up scenes, the sector has diversified into new areas that overlap with other industries – as Skeleton Technologies, one of the deal leaders of 2023, indicates.

The TMT sector, among others, is attracting attention from an ever-broader geographical range of investors, with major transactions driven by companies from Japan and South Korea in 2023. This trend seems set to continue, with the closer ties between Vilnius and Taipei a particularly interesting area to watch.

The past year was a lively one for the financial services sector, and 2024 promises more of the same. Nine companies (20%) are on the 'for sale'

Baltics heat chart

Sector	Volume
TMT	14
Financial Services	9
Energy, Mining & Utilities	6
Industrials & Chemicals	5
Business Services	4
Consumer	4
Pharma, Medical & Biotech	2
Transportation	1

Companies for sale stories tracked by Mergermarket
01/07/2023 to 31/12/2023

Global effect

"I don't think the war in Ukraine is holding back investors – it's the general market situation. And we saw investments from major international companies like Hyundai, who were not put off."

Sven Papp, Partner and Co-head of Transactions, Ellex in Estonia



chart; four consumer businesses also feature. Latvian pensions company Indexo is planning to launch a bank in the coming year, while consolidation is an ongoing trend across Europe.

The I&C (five "for-sale" stories), EMU (six) and business services (four) sectors also feature on the Mergermarket heat chart, indicating that dealmaking will remain healthily diversified, even while TMT continues to lead the way.

The IMF expects the region's economies to accelerate considerably in 2024, forecasting 2.7% growth in Lithuania, 2.6% in Latvia and 2.4% in Estonia. As the Baltic countries have already been attracting leading global financial and strategic investors for many years, the outlook for dealmaking is very positive.

Supercharging 2024

"We are hiring new people to our mandate team, so, very objectively, our expectations are positive. The pipeline is filling, and we are waiting until everyone is encouraged enough to proceed with transactions that were postponed in 2023. The first interest rate cut will be a signal to the market that the slowdown is over and the economy is growing again."



Filipps Klavins, Senior Partner, Ellex in Latvia

Look east

"Taiwanese companies have decided to invest in CEE, and Lithuania is one of the target countries. Mostly, they're looking at tech companies, but unlike most investors, they're looking at 'deep tech', which requires high levels of investment, while everyone else wants to have Software-as-a-Service (SaaS). It's good to see that Lithuania can attract these types of investors in these industries."



Rūta Armonė, Partner and Co-head of Corporate and M&A practice, Ellex in Lithuania

Focus on tech

"There's always interest in the tech sector, and now the health-tech sector. Funds which have an ESG focus are looking into health, research and green technology. Our clients are exploring options to invest in scale-ups that want to grow more strongly."



Sarmis Spilbergs, Partner, Corporate and M&A, and Head of Technology, Media and Communications practice, Ellex in Latvia

ABOUT ELLEX

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

**Ellex[®]
Raidla**

Estonia

**Ellex[®]
Klavins**

Latvia

**Ellex[®]
Valiunas**

Lithuania



Market position

- The largest law firm and market leader in the Baltics with 250+ 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 43 lawyers, including 17 partners.
- Leading international transaction practice in the Baltics by deal count in Eastern Europe, Bloomberg 2023 and Refinitiv 2023.
- Top Tier 1 rankings in Corporate and M&A by Legal 500 and IFLR 1000.

Top news

- No.1 Law firm in the Baltics according to the "Kantar Sifo Prospera Law Firm review 2023"
- 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, 2023
- Baltic Law Firm of the Year by Who's Who Legal, 2023

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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.

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