

2024

BALTIC PRIVATE M&A DEAL POINTS STUDY

ESTVCA / ESTONIAN PRIVATE EQUITY
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Transactions Analysed

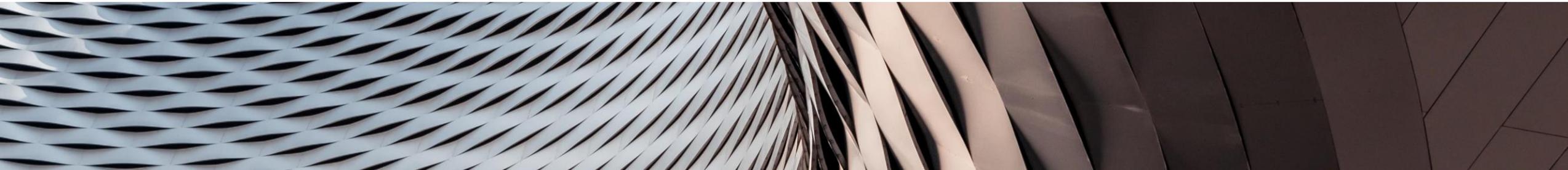
- The study analyses 179 private M&A transactions completed during the period of April 2022 – March 2024.
- This 2024 study compares the results to the previous studies in 2022 and 2020.
- The transactions included in the survey have the following characteristics:
 - The survey covered M&A transactions, i.e. acquisition or merger of businesses via share or asset transactions, corporate statutory mergers or in any other way, excluding, however, fundraisings and joint ventures that did not trigger the transfer of control.
 - Only Baltic transactions were studied, i.e. M&A transactions involving targets operating in one or more of the Baltic States: Estonia, Latvia and Lithuania.
 - The transactions had a deal value over EUR 1 million and were completed during the period of April 2022 – March 2024.
 - The study focuses on private M&A transactions, i.e. excluding takeovers of publicly listed companies as well as venture capital or other minority investments.
- No additional limitations applied as to deal value, the nature of the parties or the target or the sale procedure of the transaction.

The eighth edition of the Baltic Private M&A Deal Points Study has been conducted under the auspices of:

- The Estonian Private Equity and Venture Capital Association
- The Latvian Private Equity & Venture Capital Association, and
- The Lithuanian Private Equity and Venture Capital Association

Together with contributions from the following Baltic M&A law firms and alliances:

- SORAINEN
- WALLESS
- TGS BALTIC
- COBALT
- ELLEX
- EVERSHEDES SUTHERLAND
- TRINITI



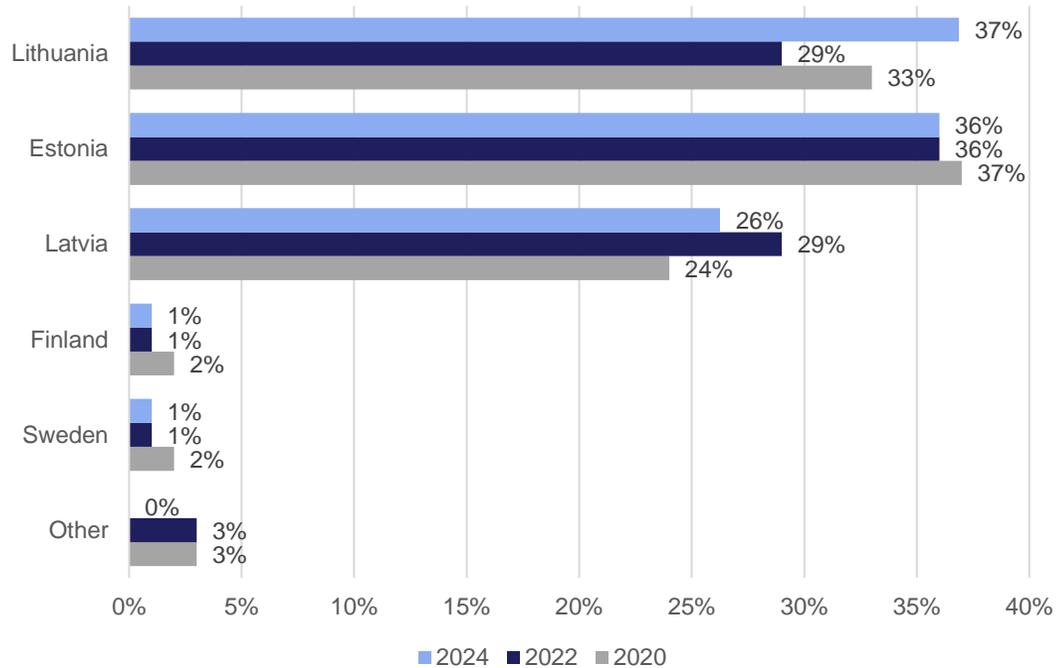
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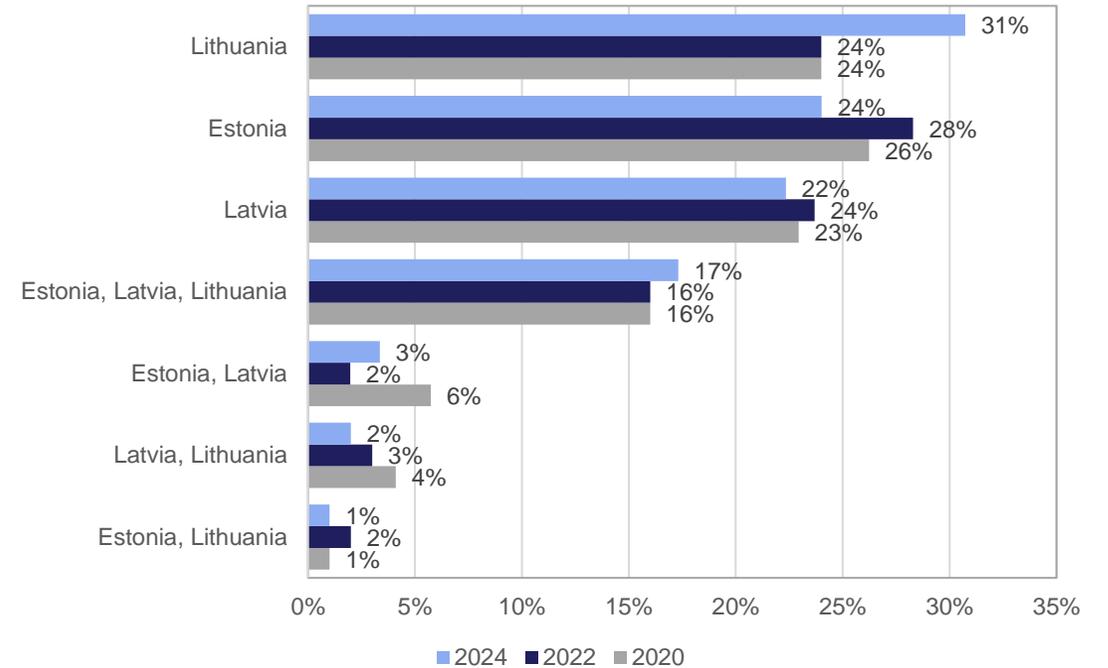
The Parties

Country of the Target's Head Office



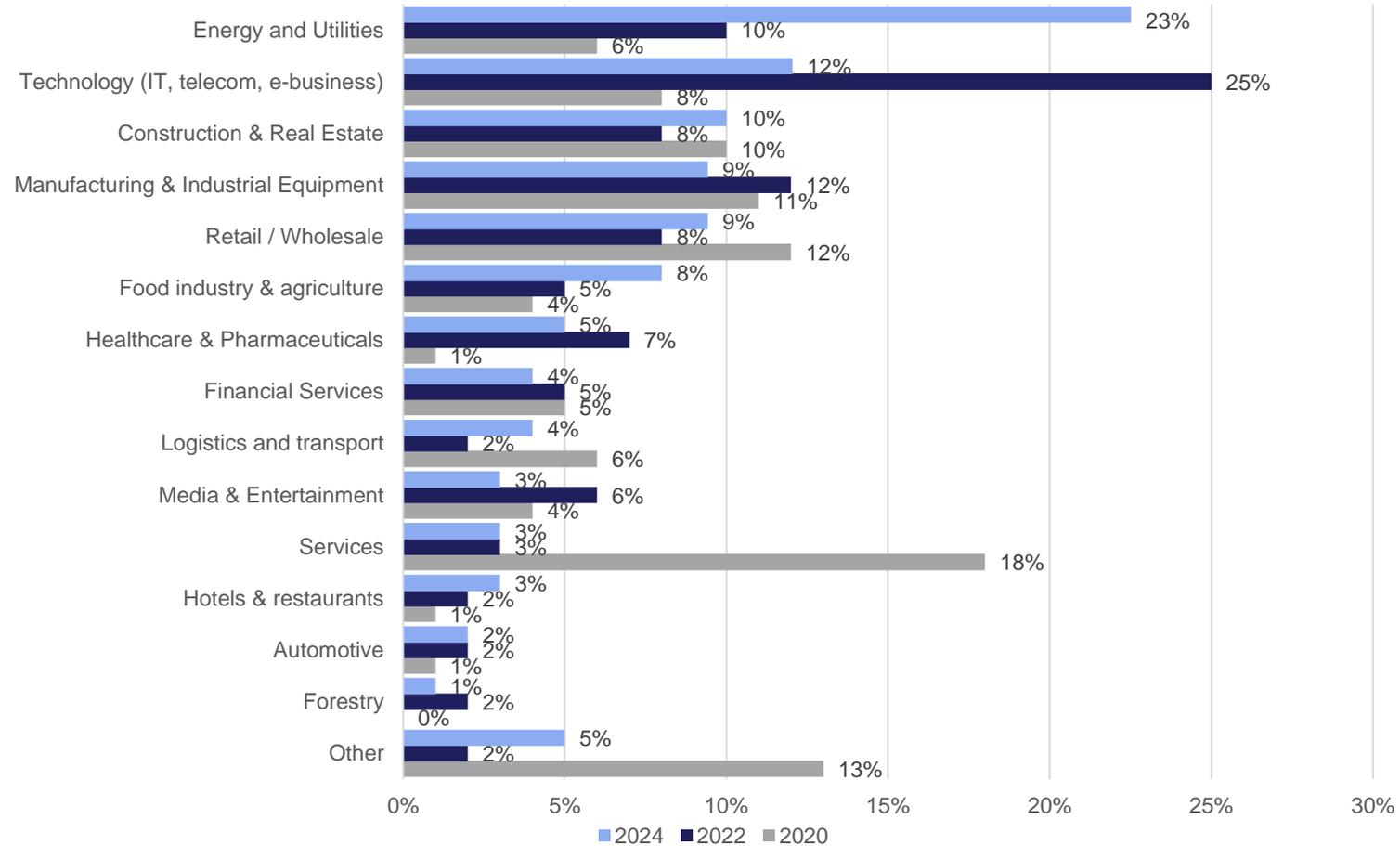
Targets in the submitted transactions were predominantly headquartered in the Baltics, with Lithuania providing 37% and Estonia 36%.

Baltic States where the Target operates



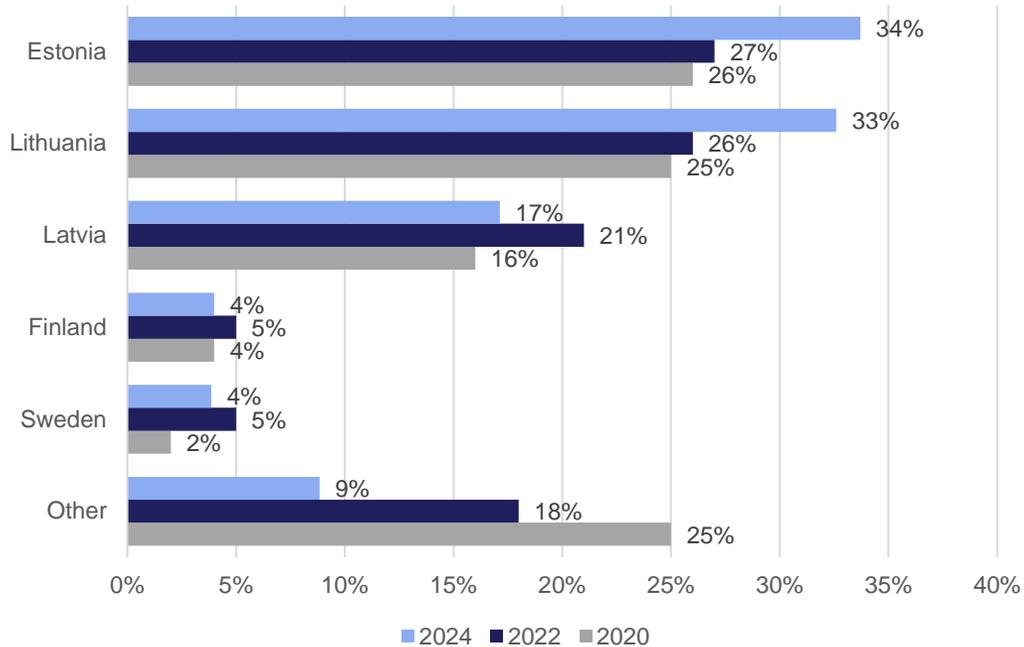
Similarly to previous periods, most of the Targets operate in only one Baltic country. The increased share of Lithuanian transactions also reflects the continuously high activity in the Lithuanian M&A market compared to Estonian and Latvian markets during the relevant period.

Target's main sectors



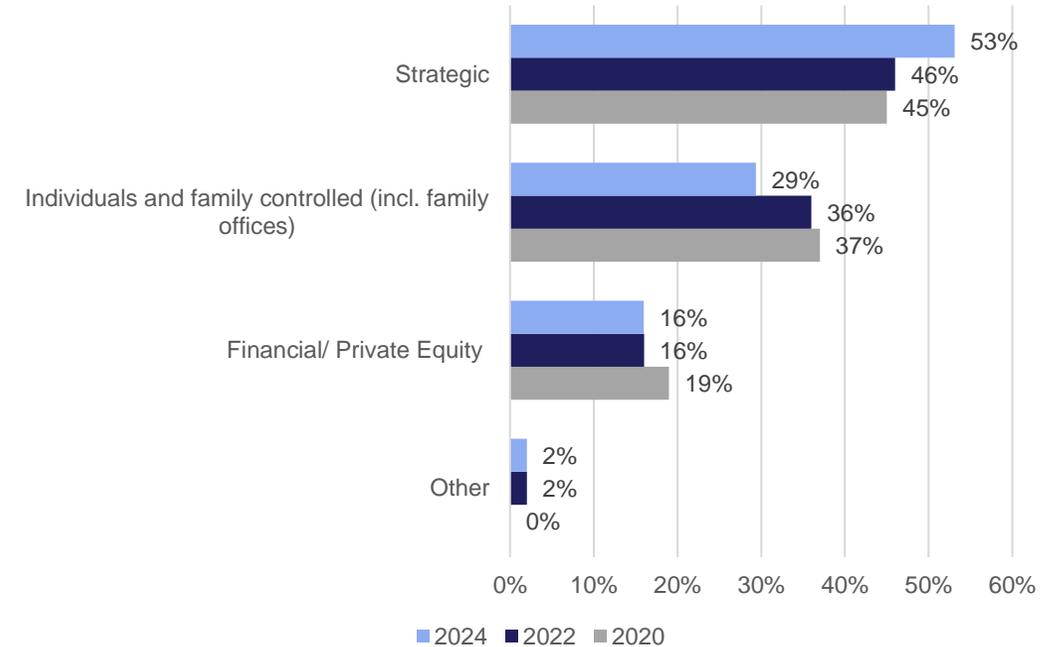
If in 2022, the tech sector was the most active in M&A transactions, then the leading sector in 2024 was energy and utilities, amounting to 23% of all the analysed transactions.

Country of the Seller



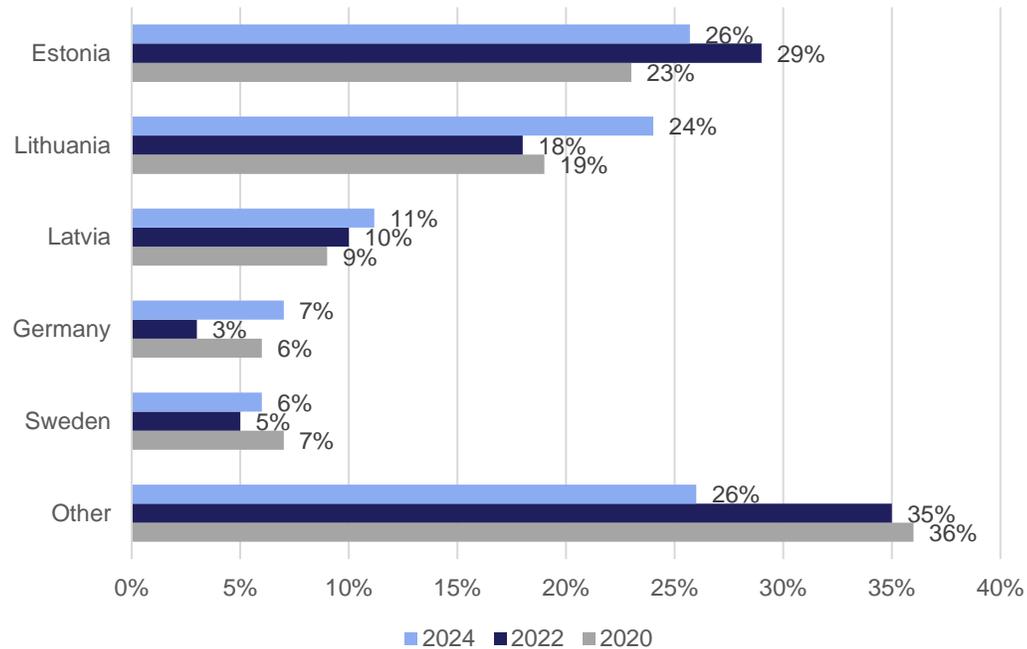
Local sellers continue to dominate the market with Nordic sellers the most visible among the foreign counterparties.

Nature of the Seller



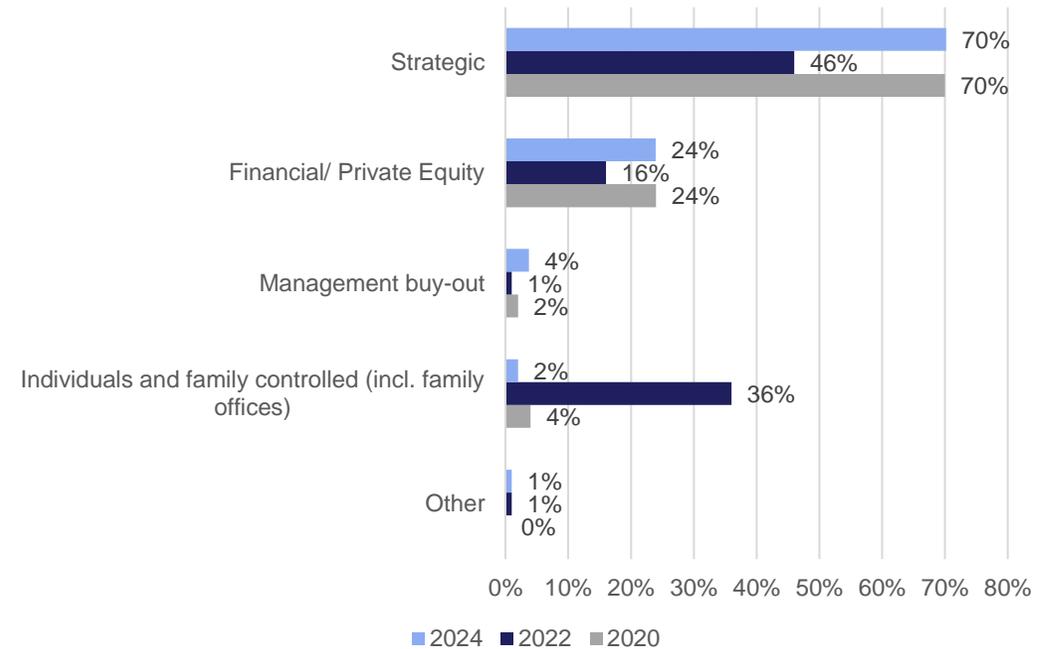
Exits by strategic investors were the main drivers during the covered 2-year period. Private equity exits remained relatively low.

Country of the Buyer's head office



Similarly to previous periods, Estonians continue to be the most active buyers within the Baltics, but Lithuanian buyers became considerably more active during the period. Among foreign investors outside the Baltics, German and Swedish buyers stand out as having a high activity level.

Nature of the Buyer



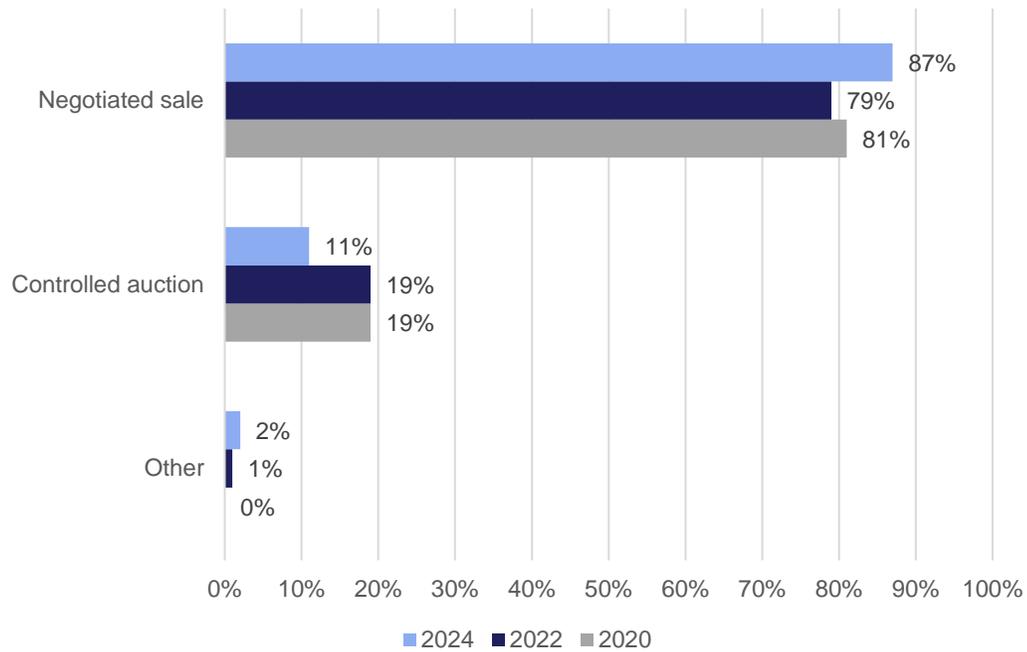
Conversely to the 2022 market situation, in 2024, the nature of the buyer is most similar to the data from 2020, with individuals and family offices significantly decreasing while the share of strategic investors and management buy-outs increasing.



Sales Process and Form of Transaction

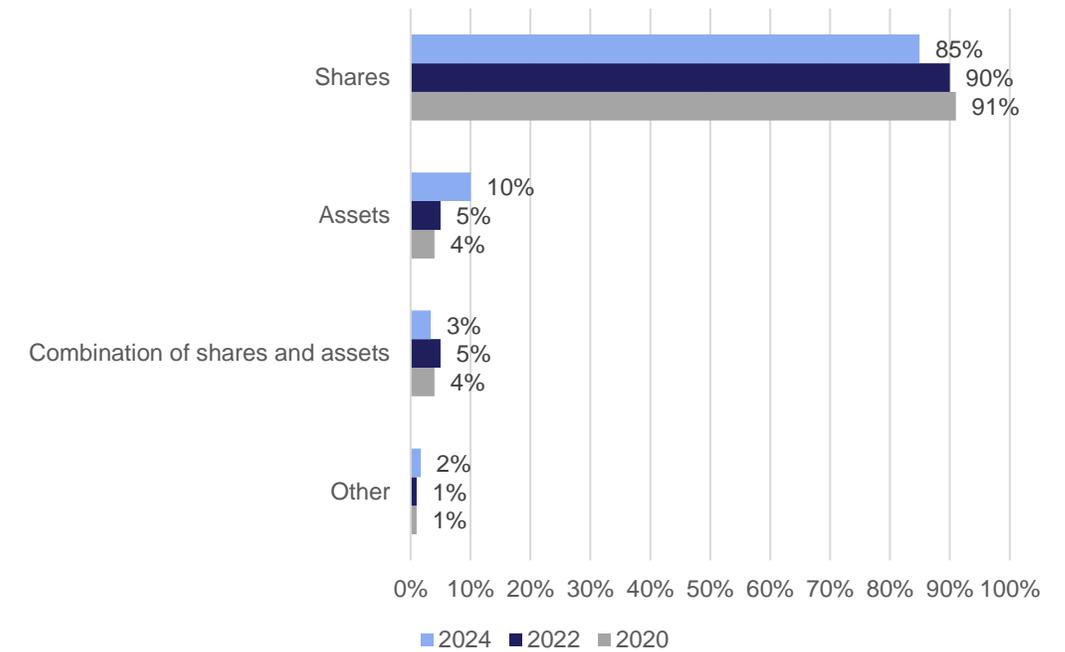
General transaction characteristics

Nature of the sales process

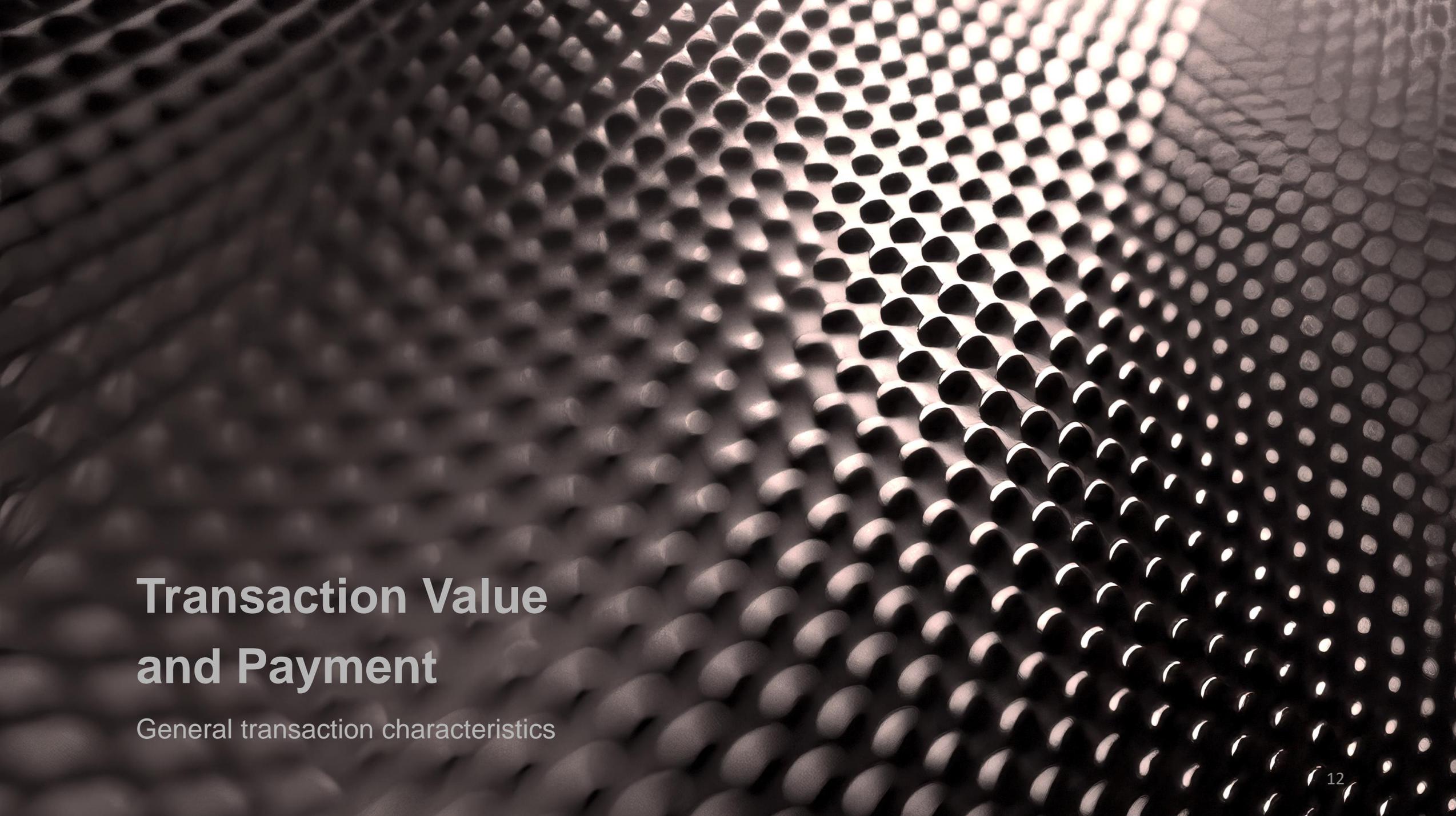


Negotiated sales continue to dominate the market over controlled auctions.

Form of transactions



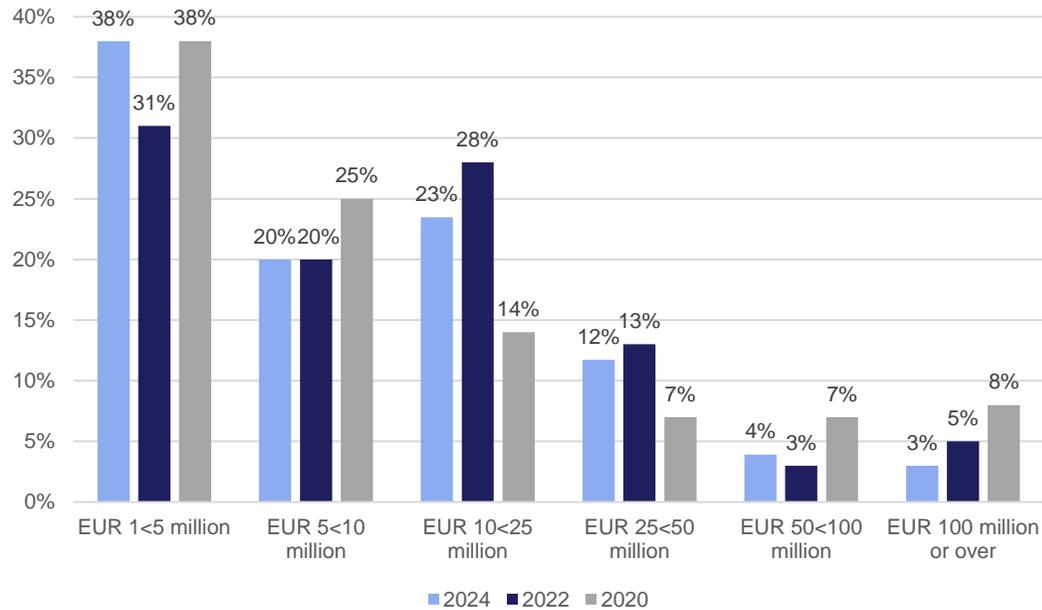
As in previous studies, most transactions in the Baltics are share deals, although the popularity of asset transactions is increasing.



Transaction Value and Payment

General transaction characteristics

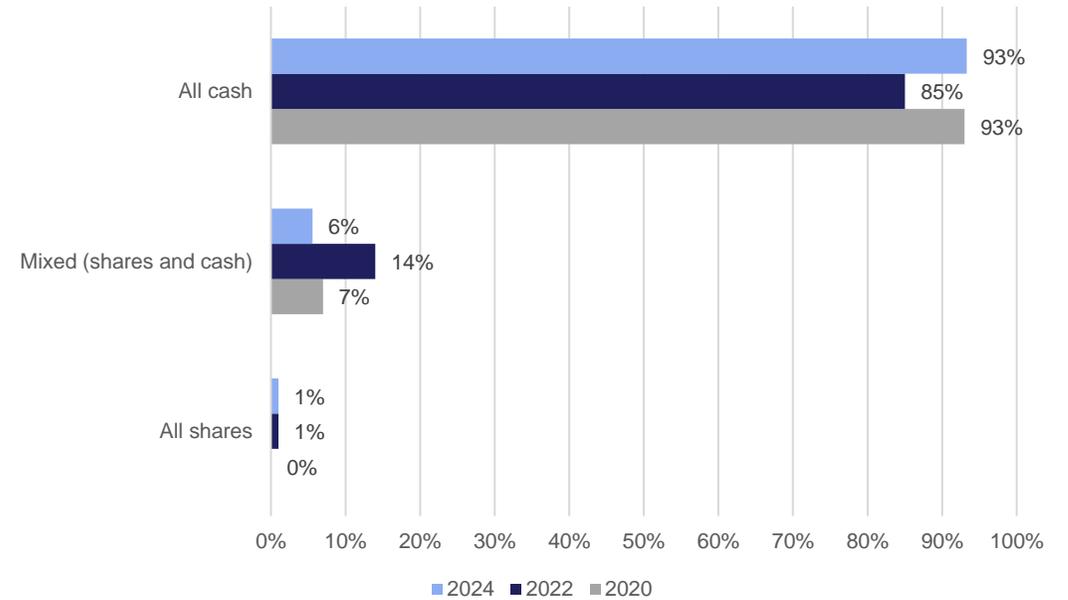
Transaction value



The value of median M&A transactions moved slightly downwards, as 58% of the transactions were under EUR 10 million.

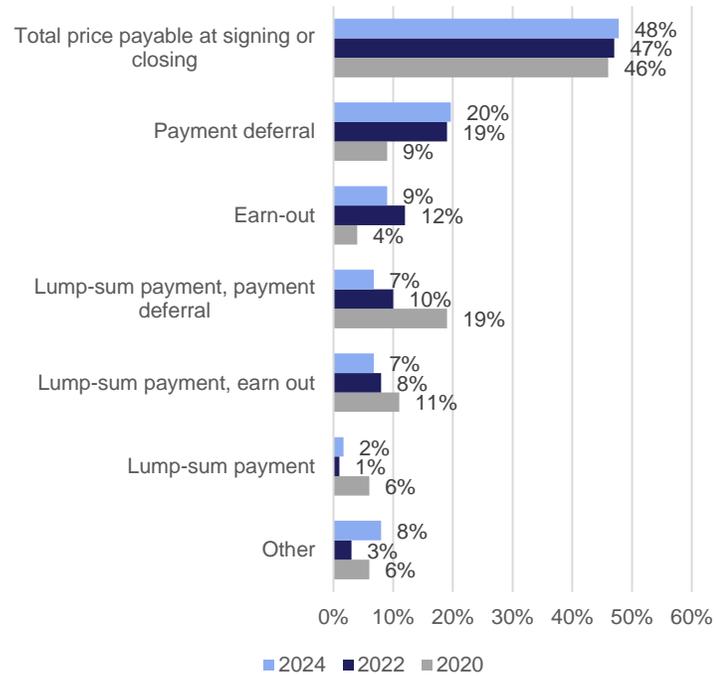
The share of megadeals (over EUR 100 million, even those between EUR 50–100 million) continued a downward trend.

Form of consideration

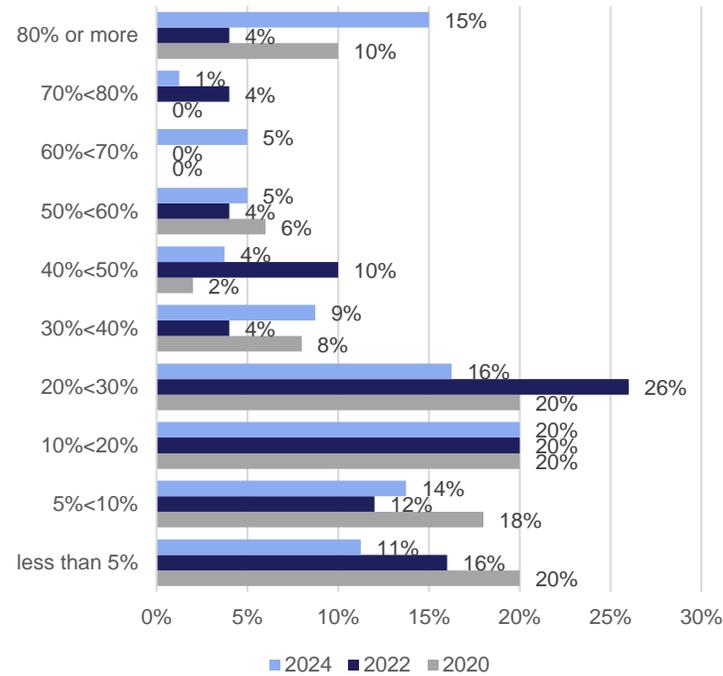


Similarly to previous studies, the vast majority of the transactions involve cash considerations.

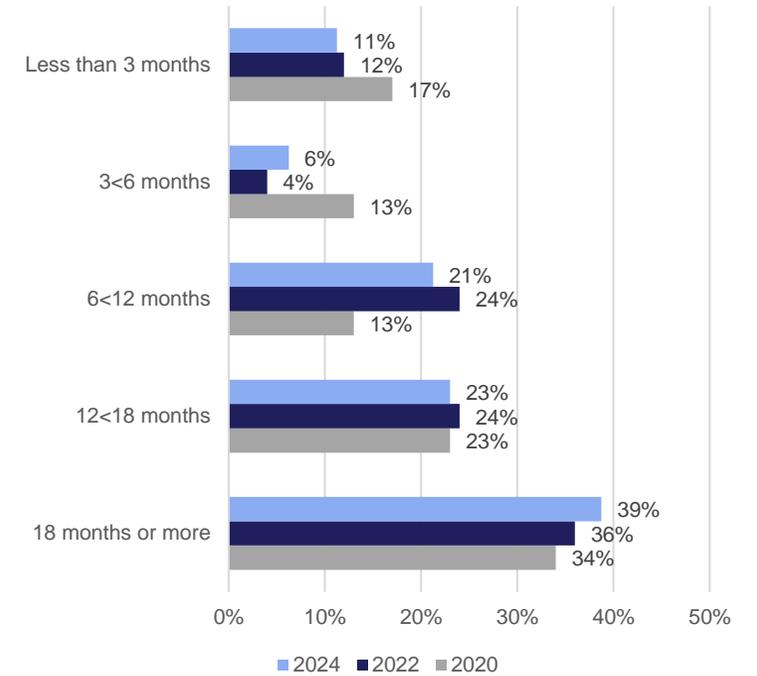
Payment terms



Percentage of price deferred (if deferred)



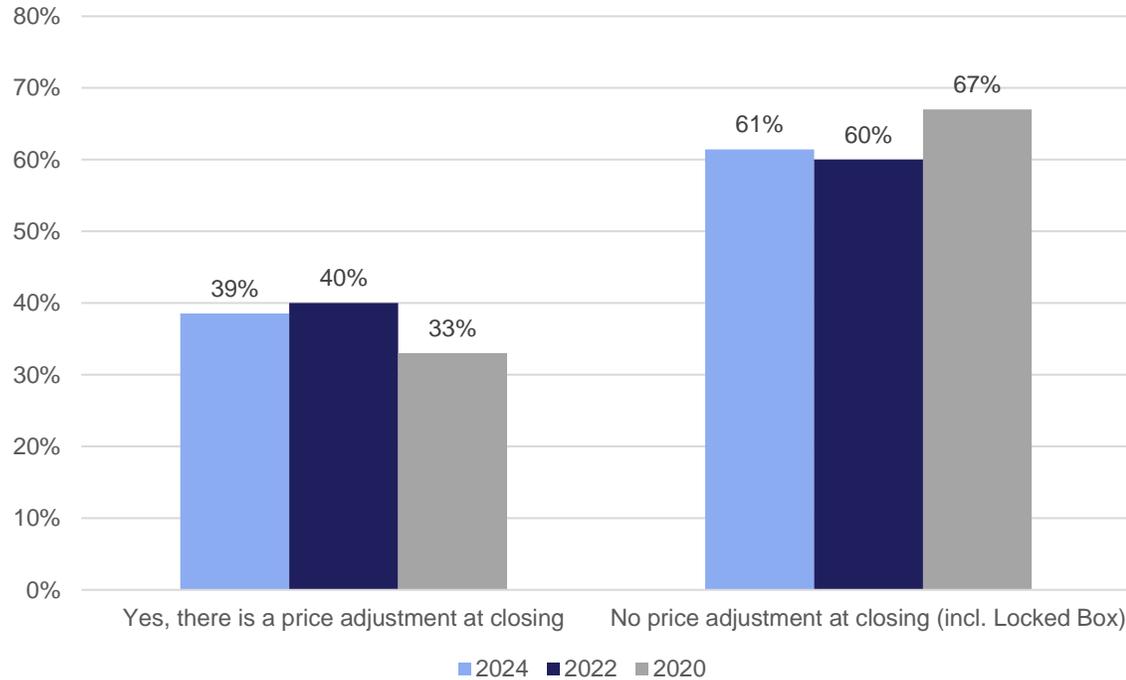
Length of deferral



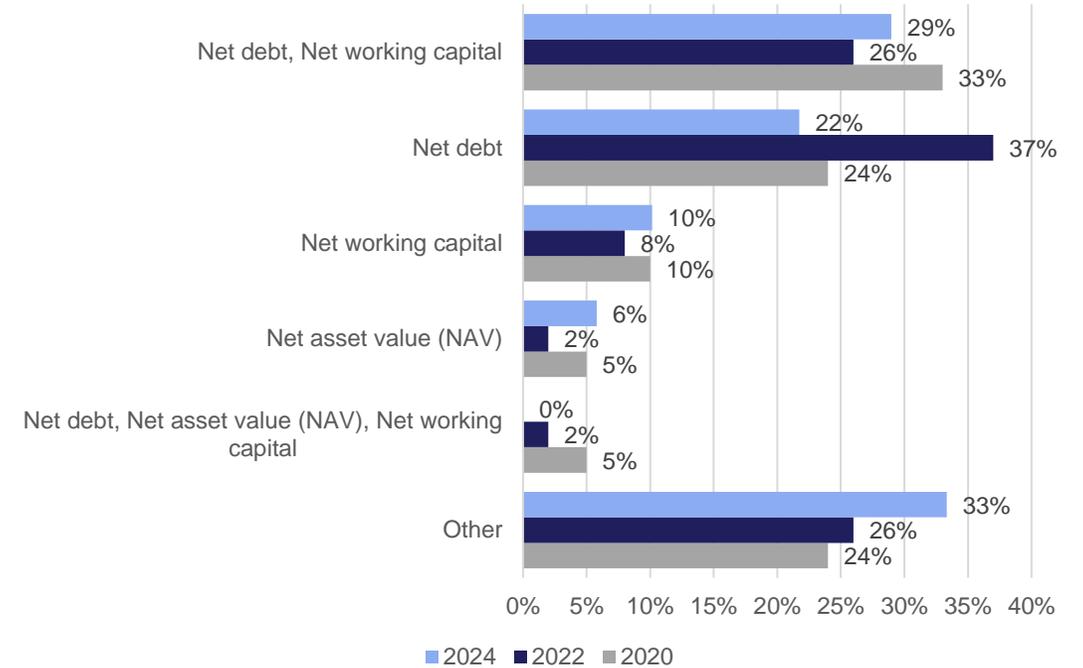
“Total price payable at signing or closing” continues to be the most common choice.

Payment deferral has slightly increased, and, when used, the deferred amount has stayed roughly the same as in previous studies. The length of the deferral has also largely stayed the same.

Price adjustment at closing



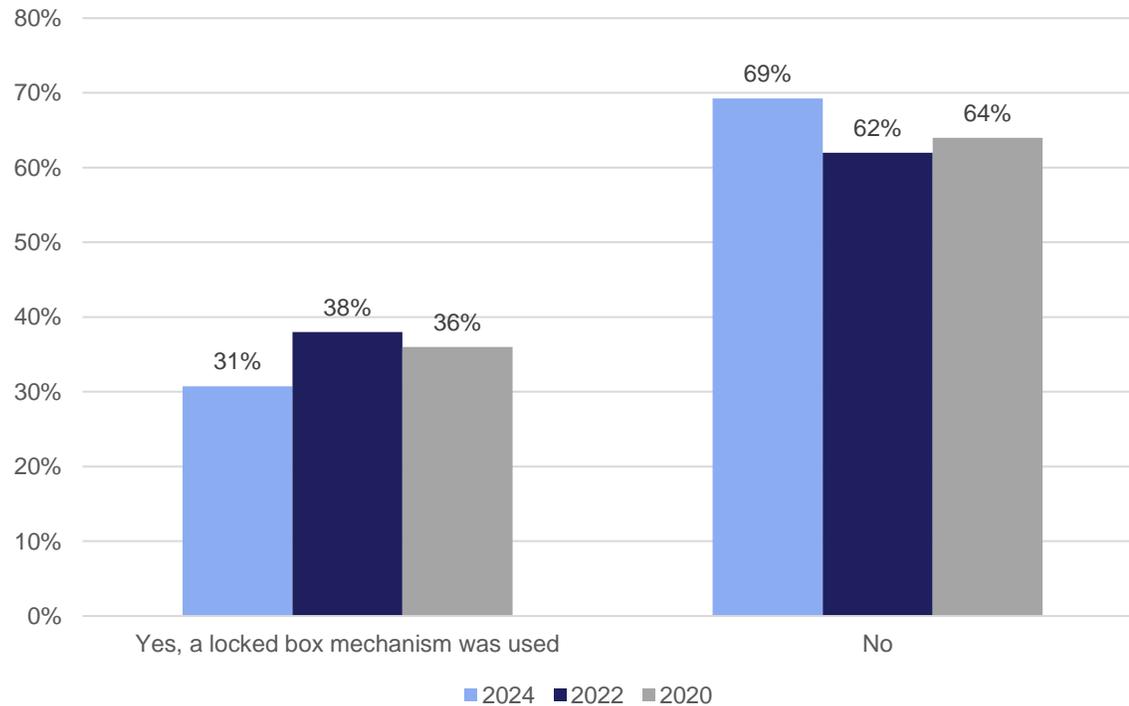
What was the adjustment based on?



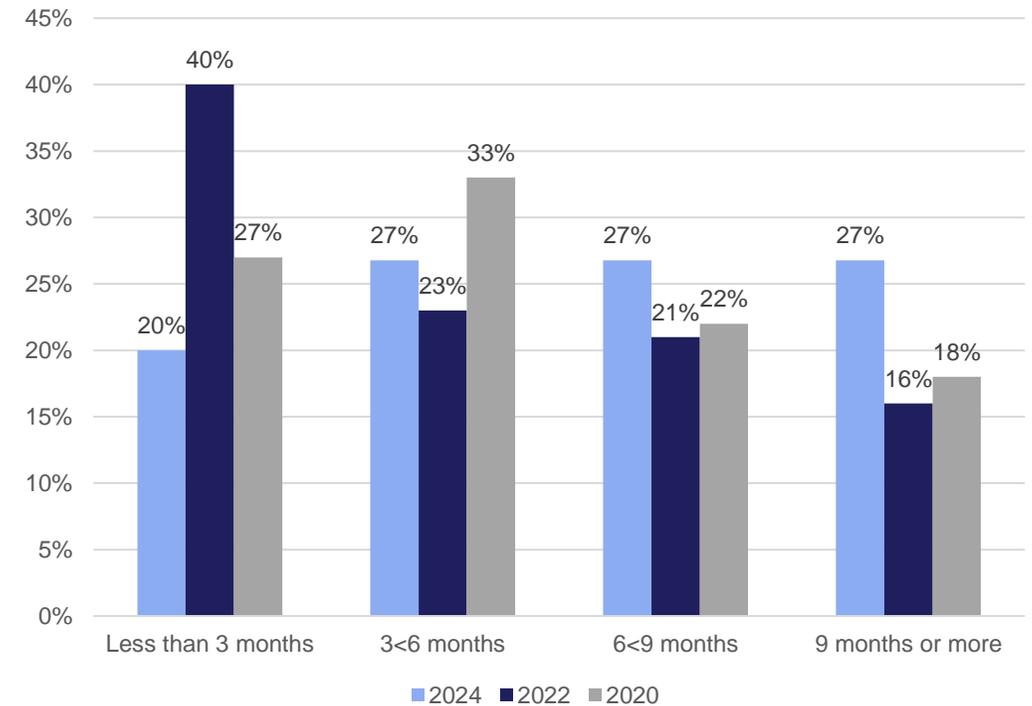
Applying price adjustment at closing continues at the same level as during previous periods.

Similarly to the previous study, about half of the price adjustments (if applied) are based on net debt and/or net working capital.

Usage of locked box



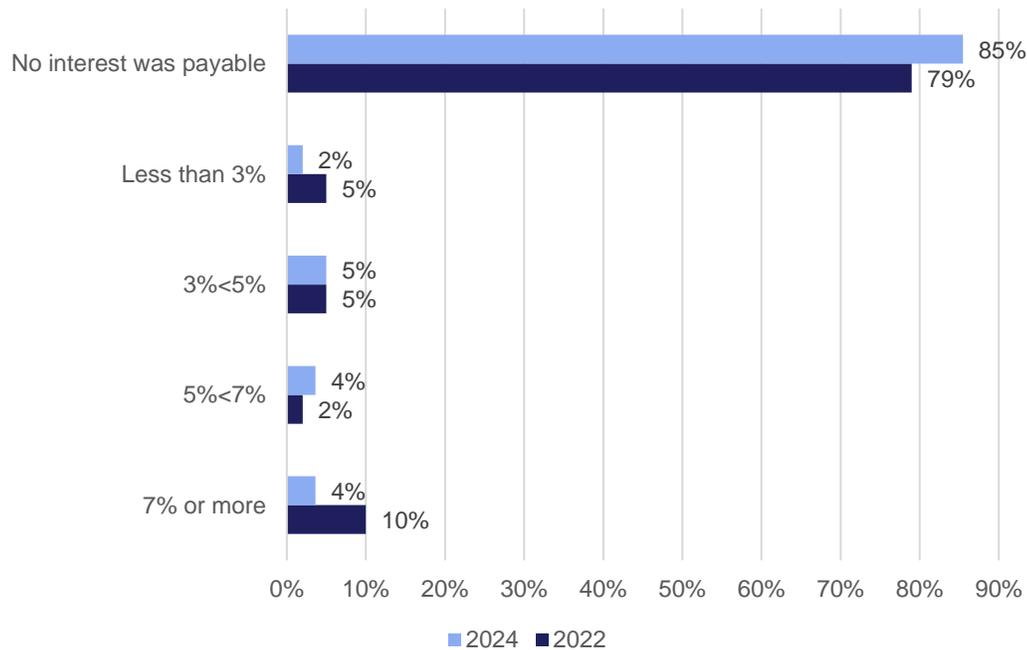
Time between the locked box date and the closing date



Like in previous studies, the locked box mechanism was used in about a third of the transactions and its usage started to decline.

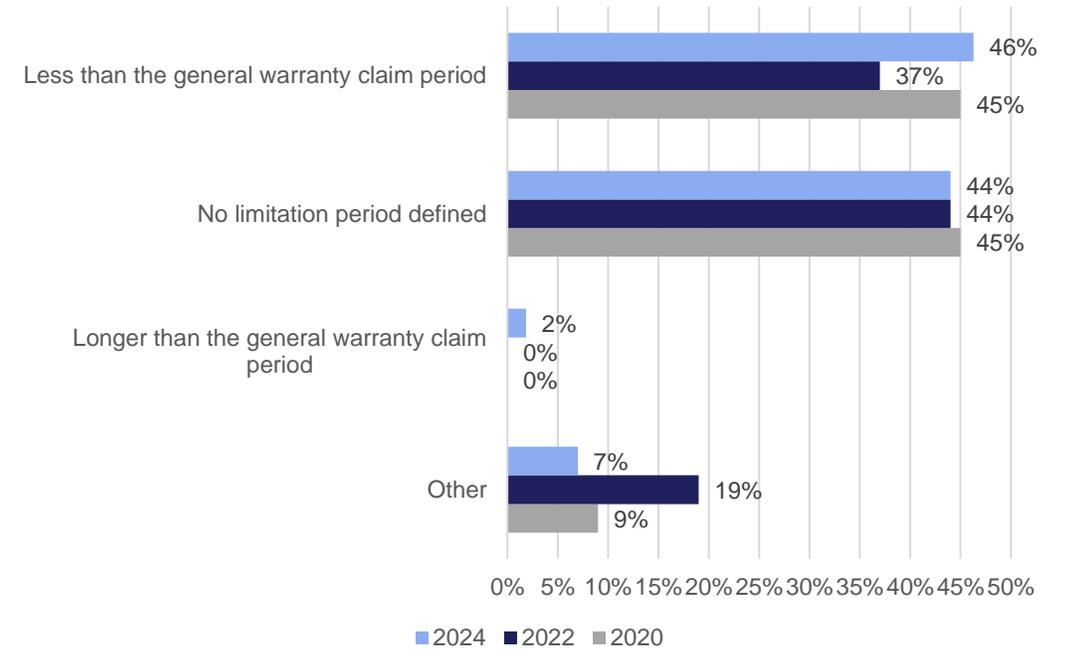
The time between the locked box date and the closing date seems to be rather evenly distributed over a period of nine months.

Annual rate of interest paid from the locked box date to the closing date



In the majority of locked box arrangements, no interest rate was applied. However, when applied, the interest rate level was divided almost evenly between under and above 5%.

Time period when leakage can be claimed by the Buyer



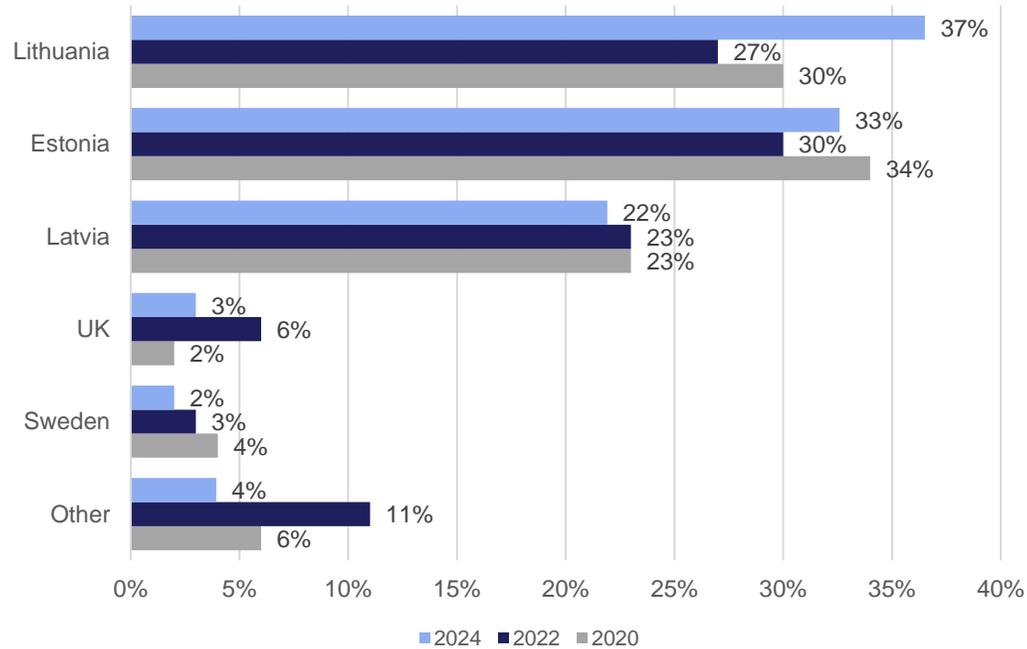
Similarly to the previous period, no limitation period was defined for claiming leakage in almost half of the occasions. If defined, the claim period tends to be less than the general warranty claim period.



Governing Law and Dispute Resolution

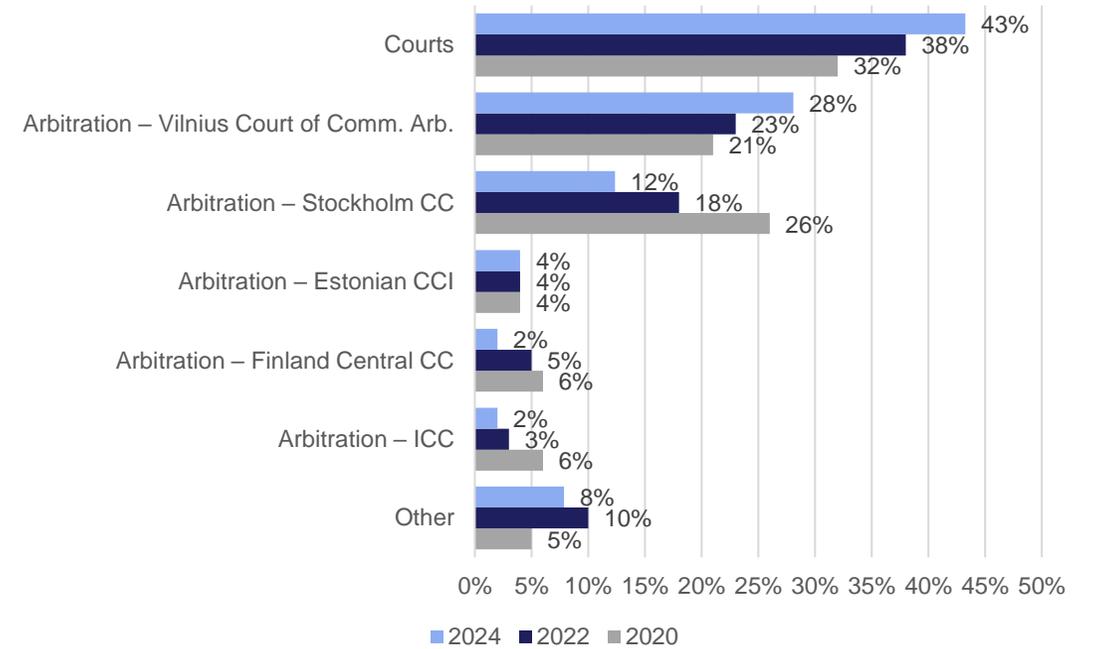
General transaction characteristics

Transaction governing law



Similarly to previous studies, most Baltic M&A transactions are governed by the local laws of the Baltic countries.

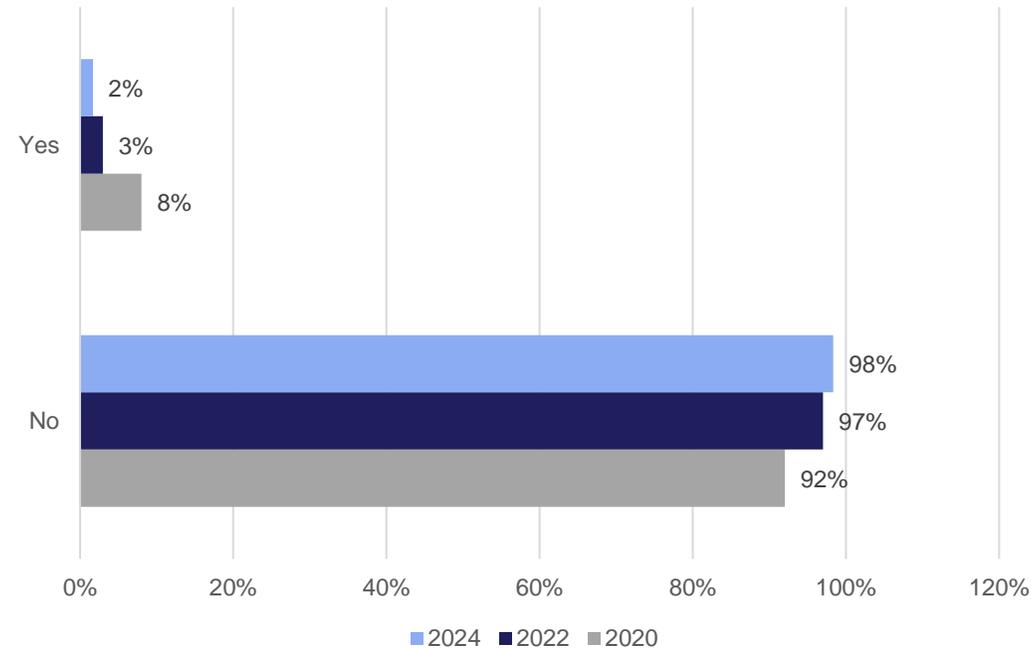
Dispute resolution mechanism



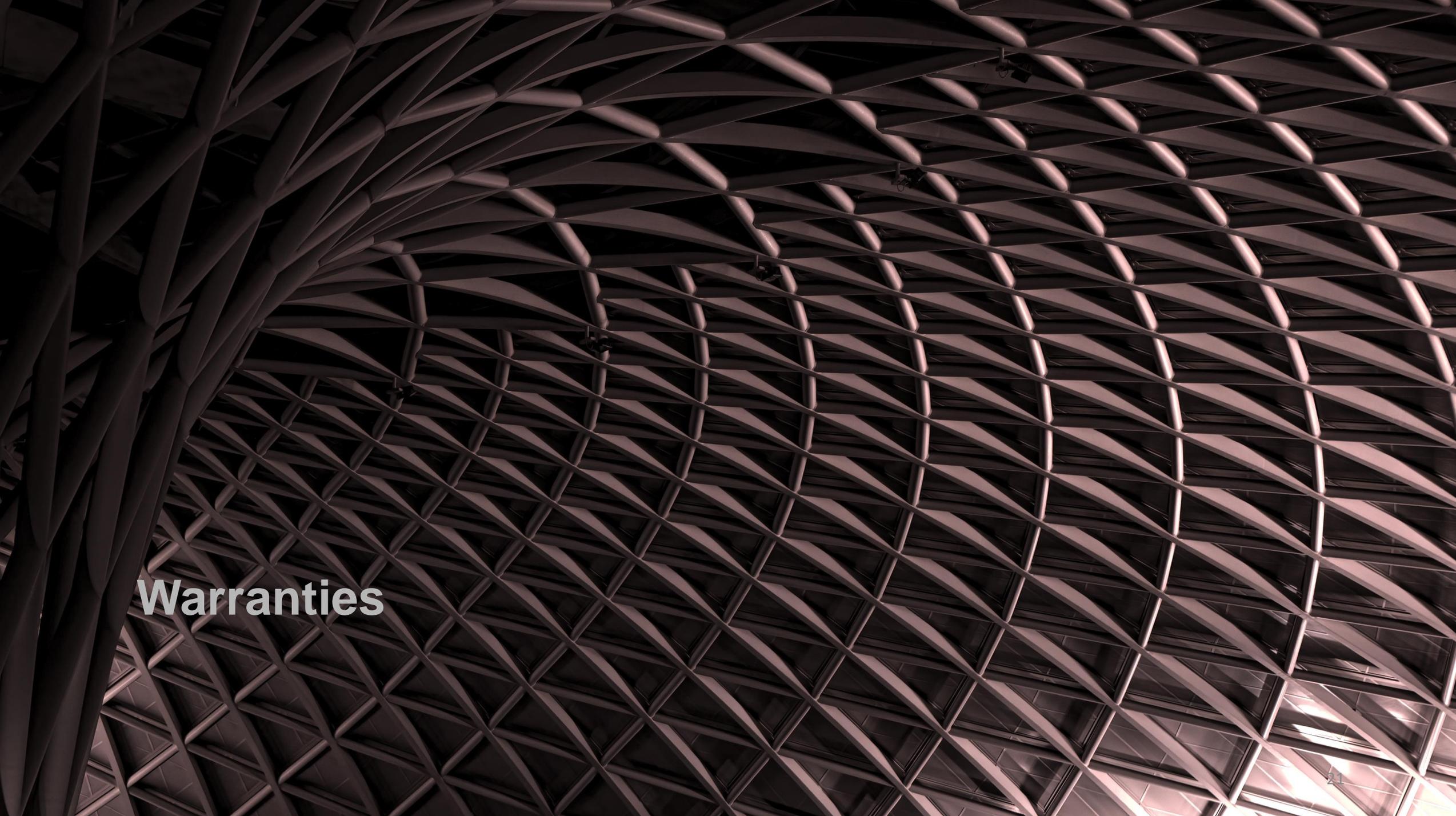
Although arbitration continues to be preferred over courts in Baltic M&A transactions, more transactions opted for courts than before. Vilnius Court of Commercial Arbitration continues to be by far the most reliable arbitration institution within the Baltic countries, and Stockholm The Chamber of Commerce is the preferred choice outside the Baltics.

Dispute Resolution: Existence of Disputes

Did the transaction or the acquisition agreement give rise to any disputes?

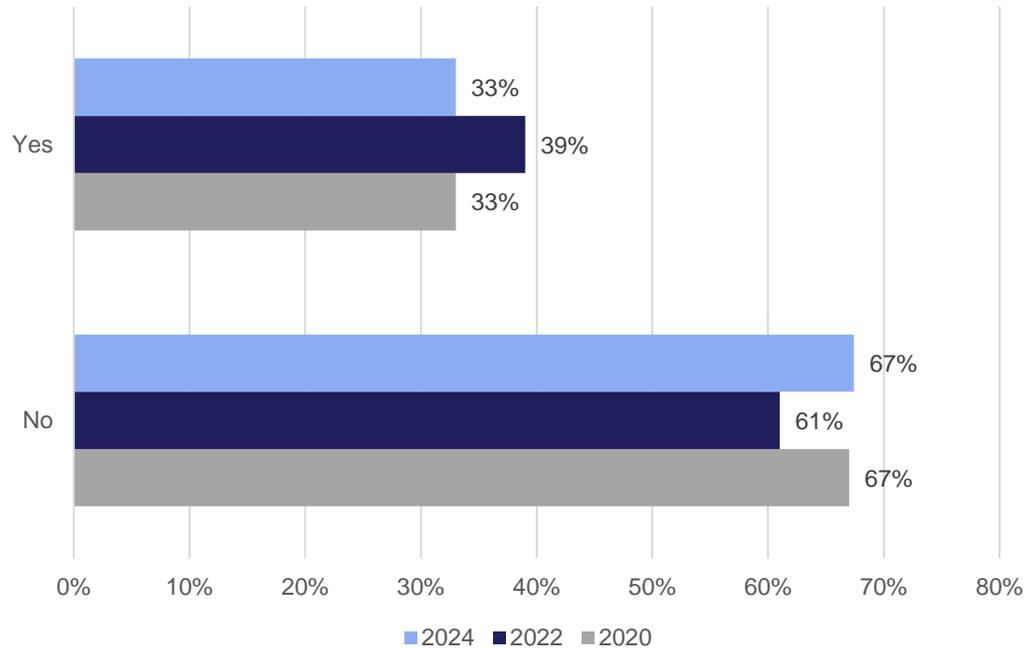


The occurrence of M&A disputes continues to be rare and was even lower compared to any previous periods.



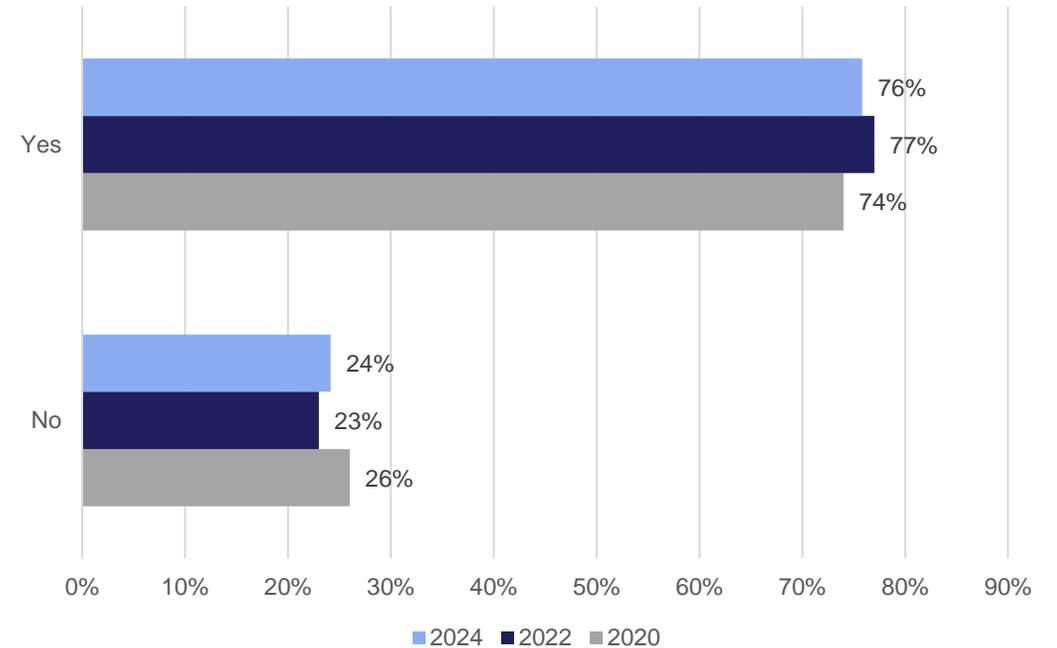
Warranties

Usage of a disclosure letter



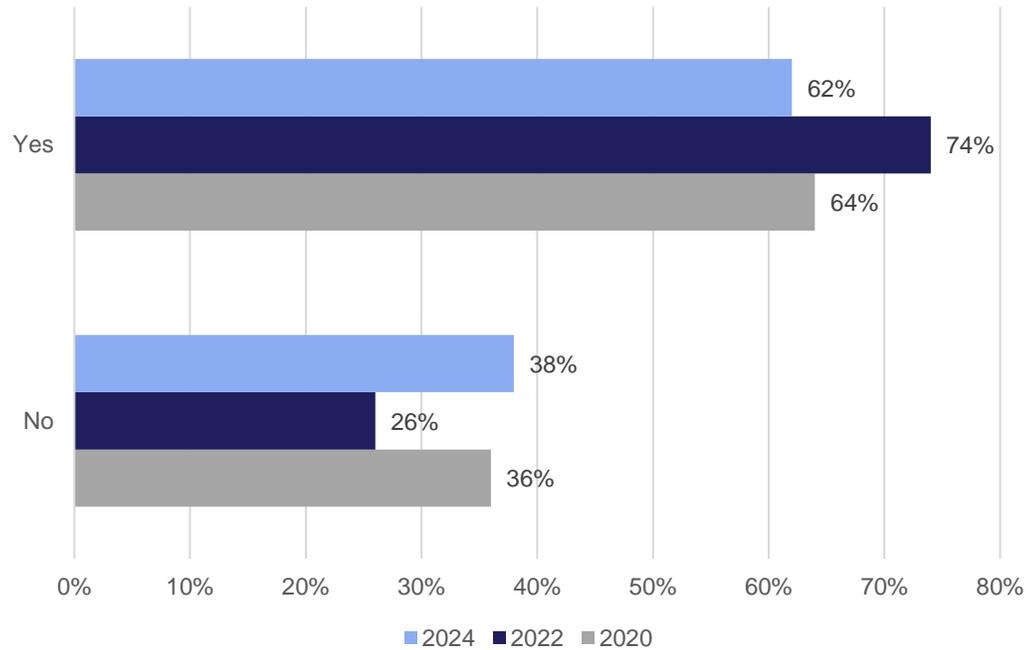
Usage of a disclosure letter slightly declined and is less common than in Anglo-American countries.

Due diligence disclosures considered general qualification for warranties



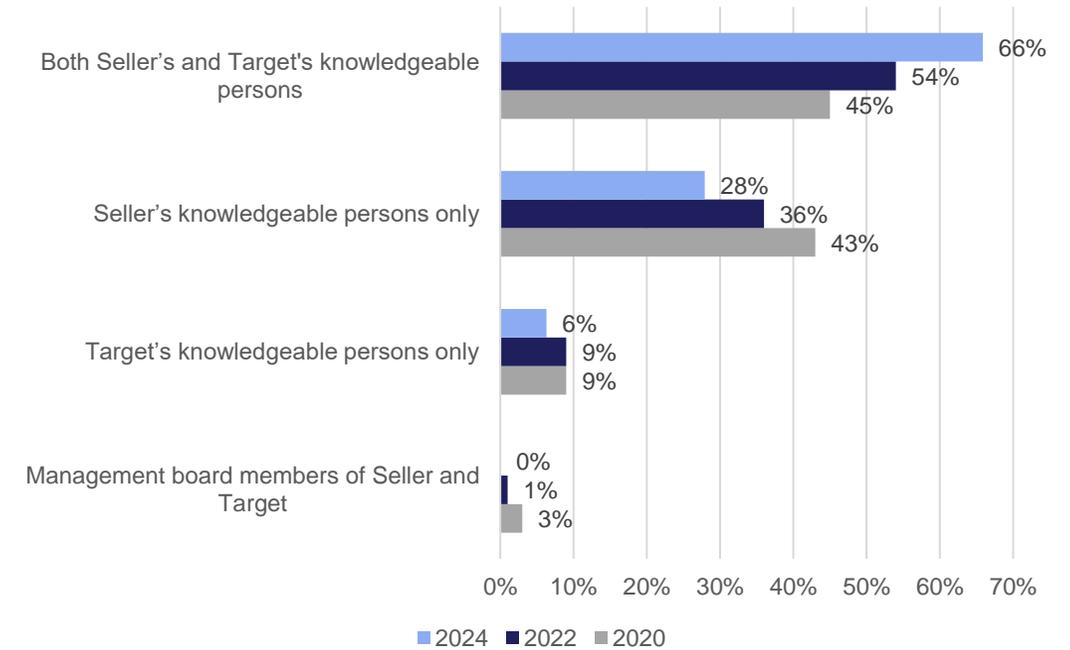
Instead of a disclosure letter, Baltic transactions use the “fair disclosure” principle, where the due diligence disclosures qualify warranties.

Is there a definition of the Seller's or the Target's knowledge?



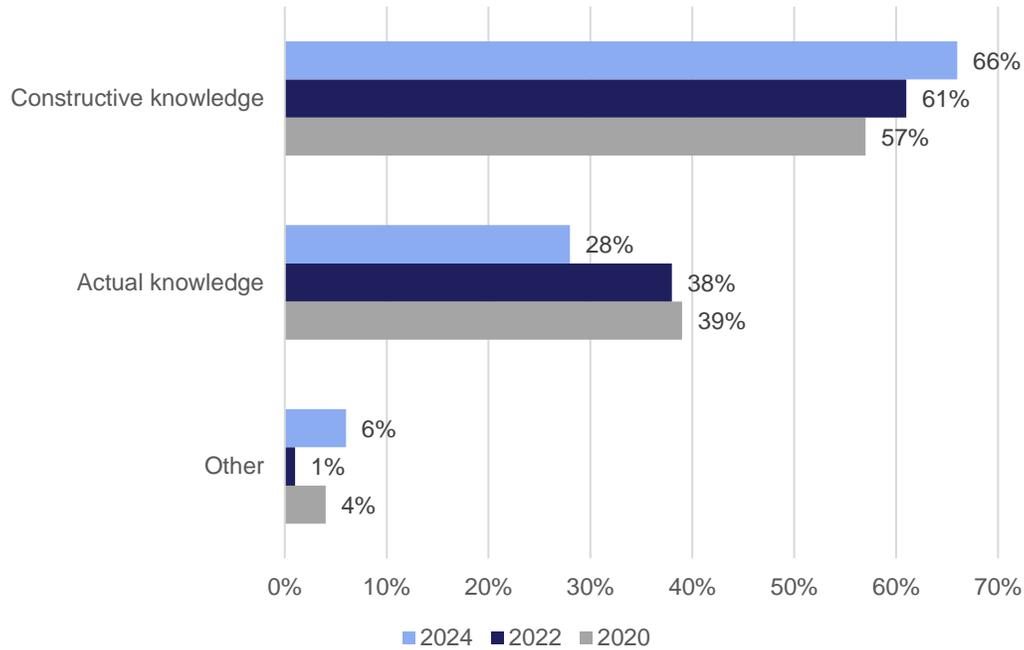
The Seller's knowledge (for the warranty qualifications) is defined in approximately 2/3 of the analysed transactions.

Whose knowledge does it include?

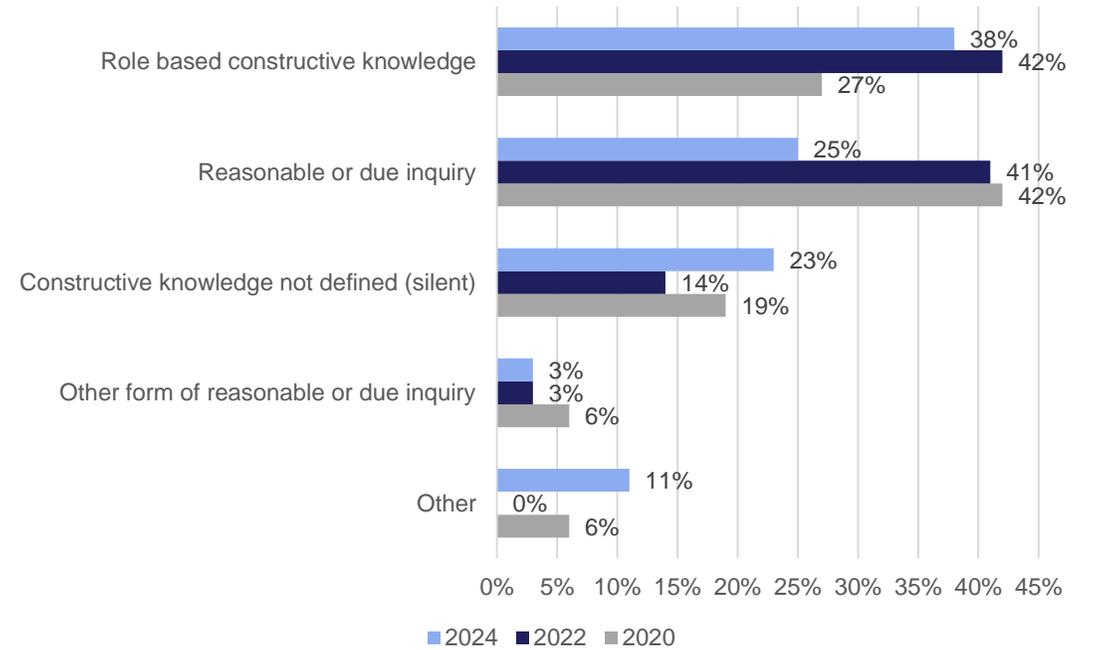


If the Seller's knowledge is defined, in addition to the Seller's persons, the Target's persons' knowledge is increasingly used.

Standard of knowledge



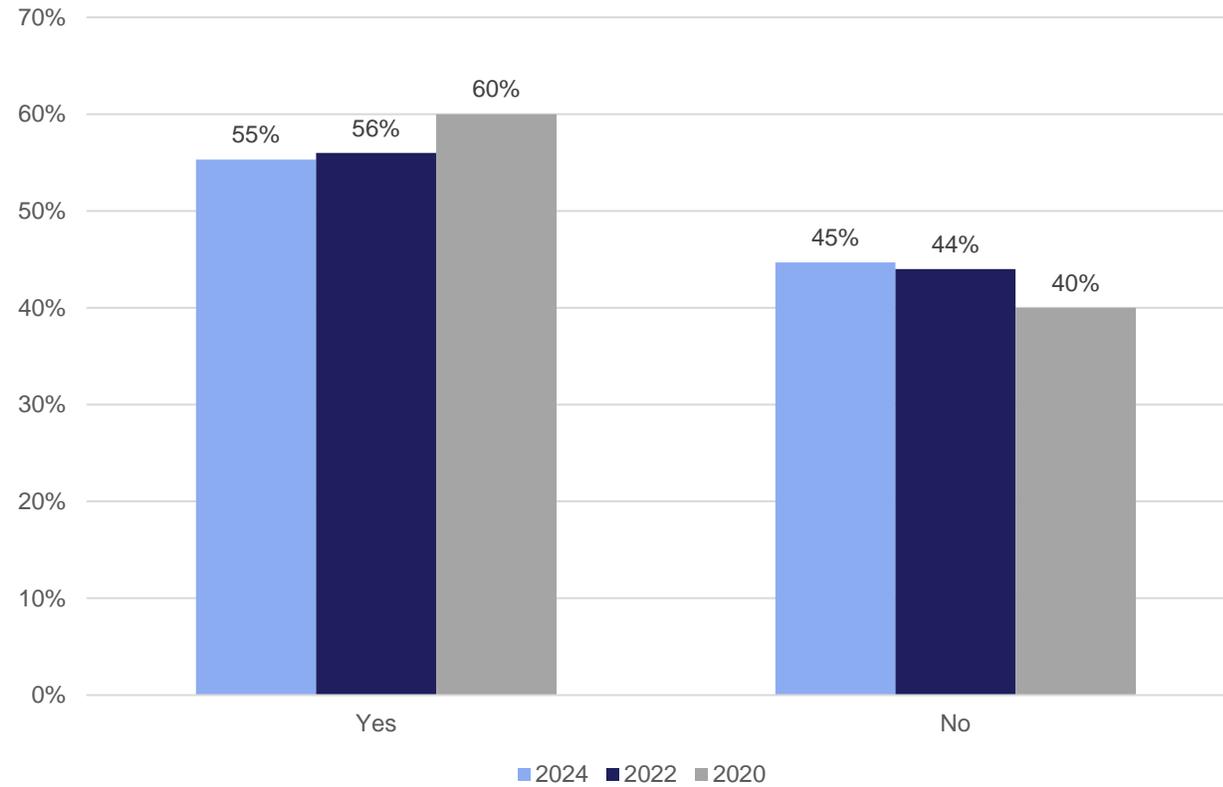
Standard of constructive knowledge



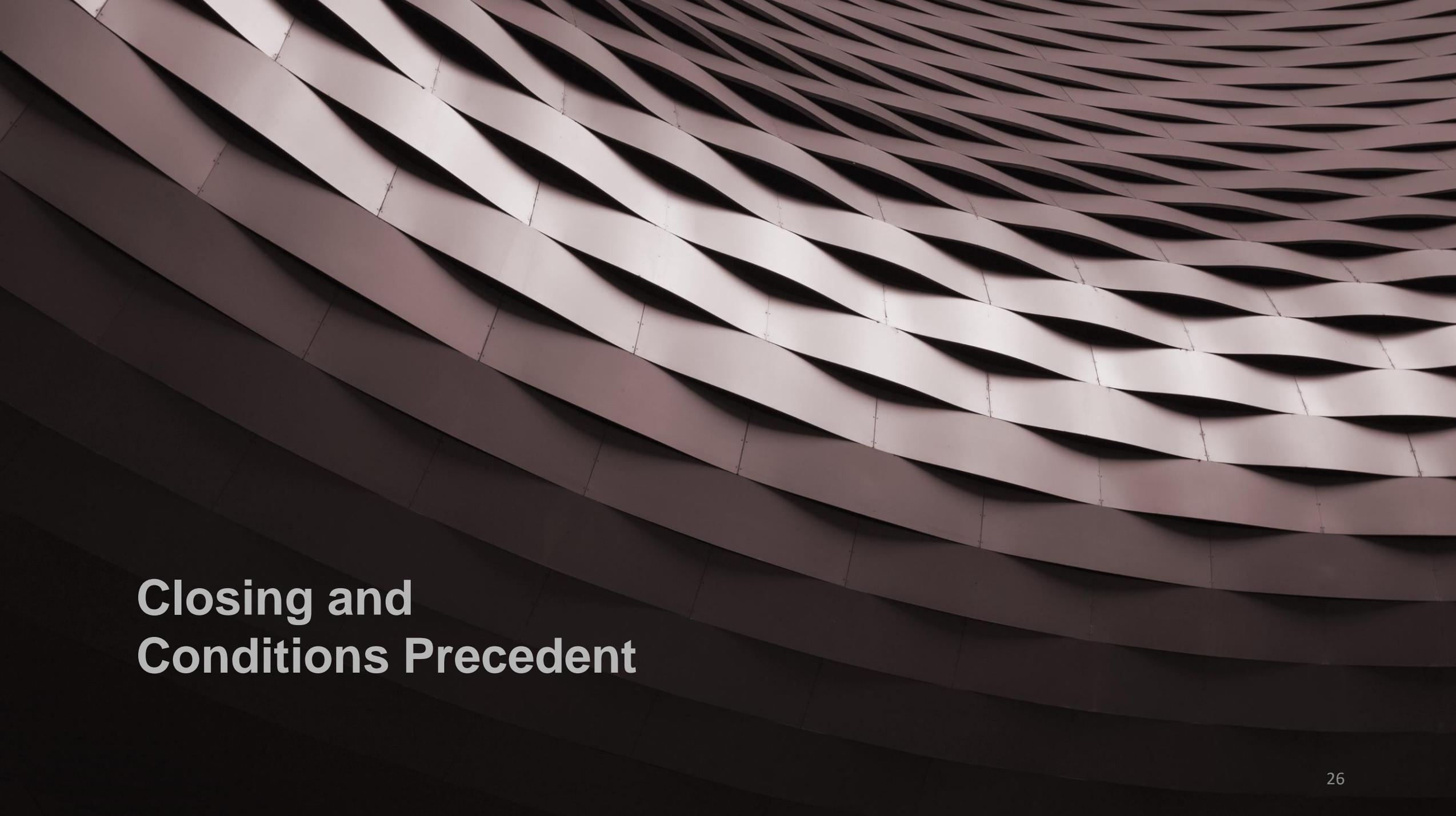
Constructive knowledge has been increasingly used as a definition of “knowledge“.

Where constructive knowledge is used, role-based knowledge is primarily used as a standard, which has not been used as often in previous years. Preference is then given to reasonable due diligence or silent constructive knowledge.

Full disclosure warranty by the Seller or Target



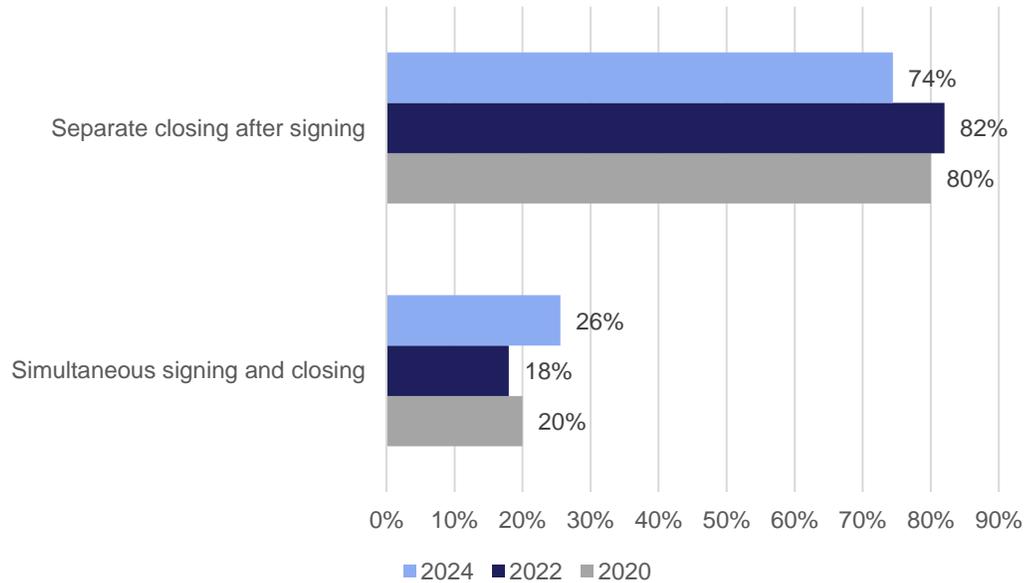
Similarly to previous periods, the full disclosure warranty was included in slightly more than half of the transactions.



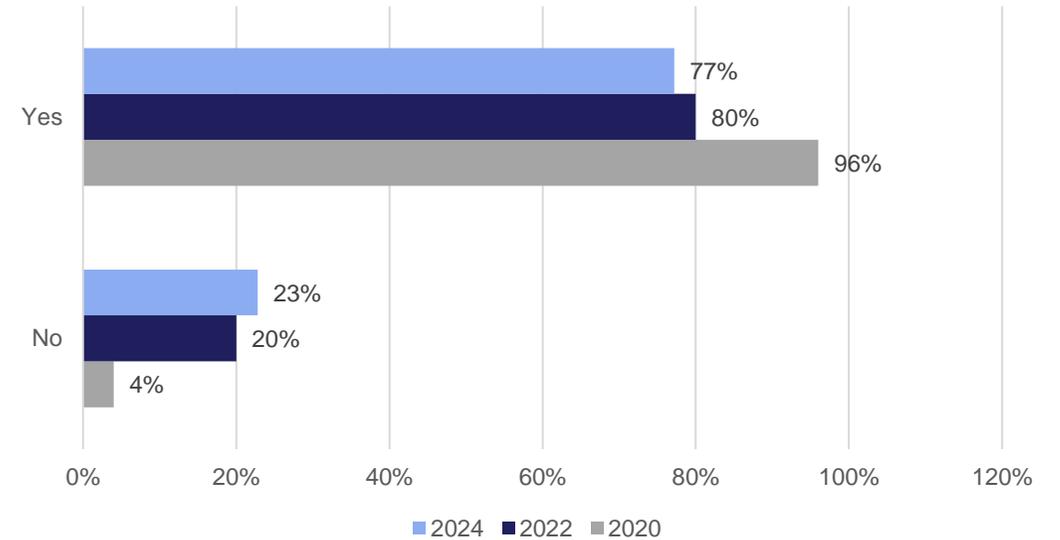
Closing and Conditions Precedent

Splitting signing and closing

Timing of signing and closing



Does the closing or the closing date depend on the fulfilling of conditions precedent?

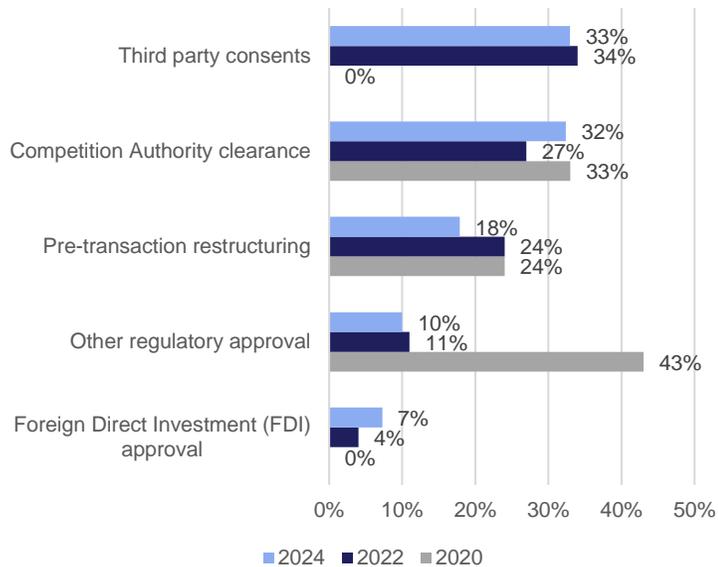


Similarly to previous periods, closing is deferred in the vast majority of transactions.

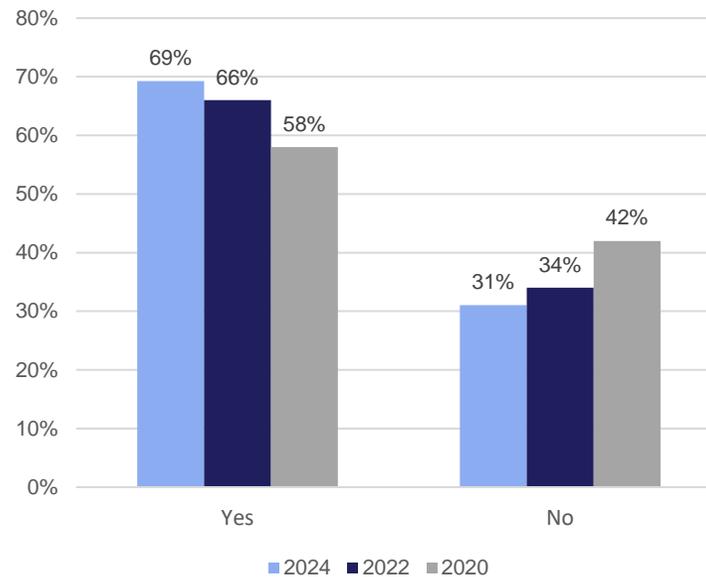
In 77% of the transactions, where signing and closing were separated, closing is not only deferred but also subject to agreed-upon conditions precedent.

Conditions precedent

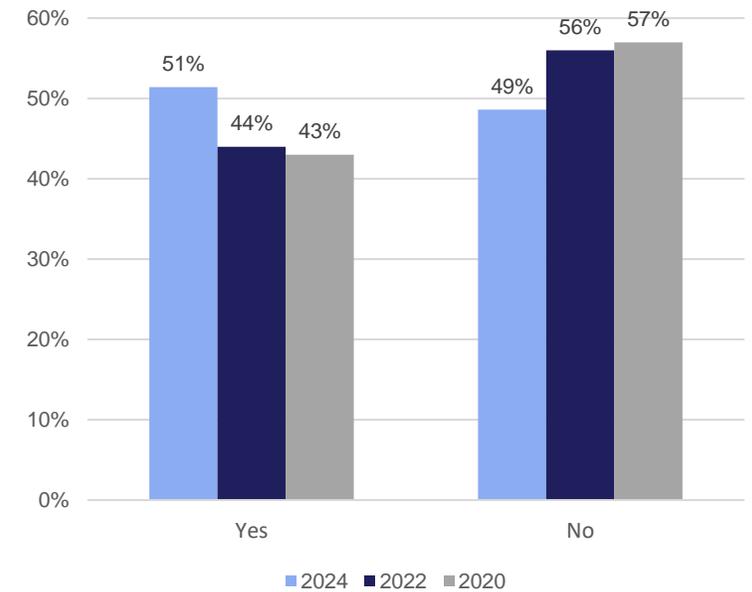
Reasons for splitting signing and closing



Is the closing subject to accuracy of warranties?



MAC (“material adverse change”) / MAE (“material adverse effect”) clause

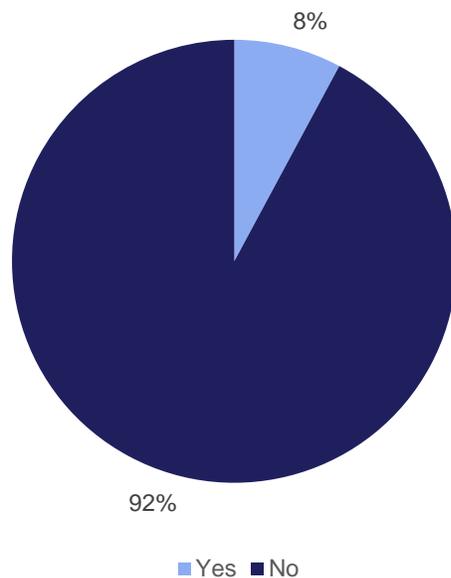


Third-party consent and merger clearance are the main reasons for splitting the signing and closing.

In only a third of the cases, the closing was not subject to the accuracy of warranties. MAC/MAE conditions continue to be used more often in Baltic M&A transactions.

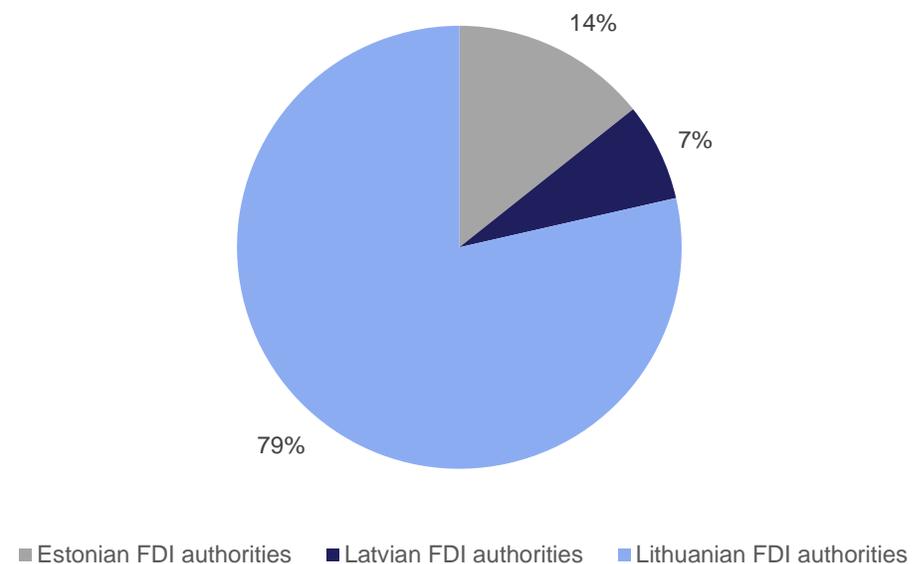
Was the transaction subject to approval by FDI authorities?

Applicability of FDI regime



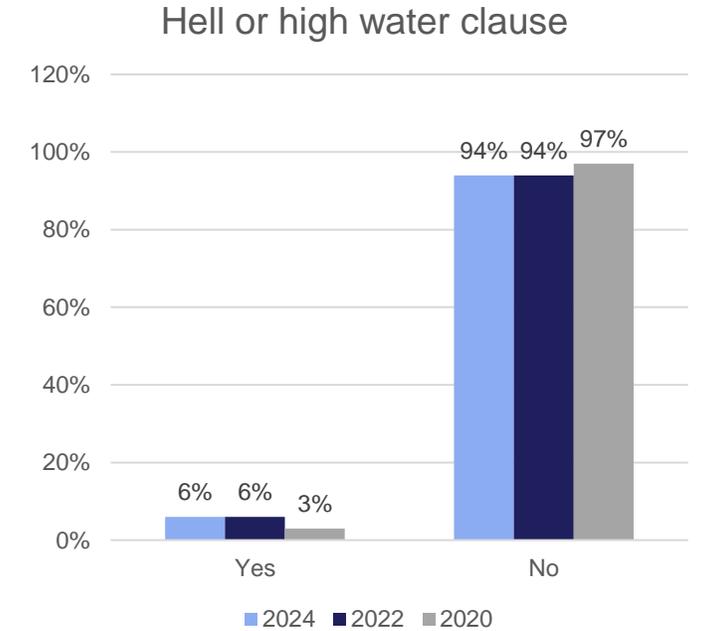
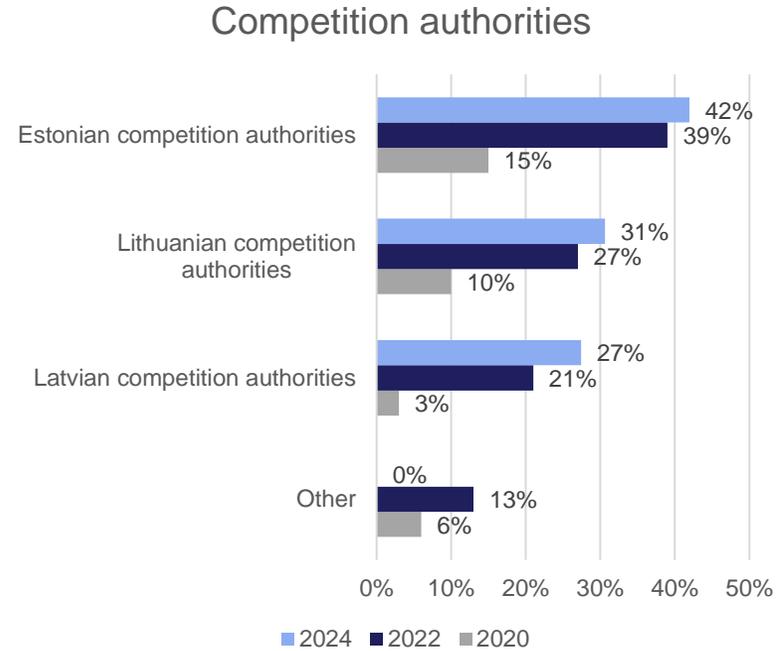
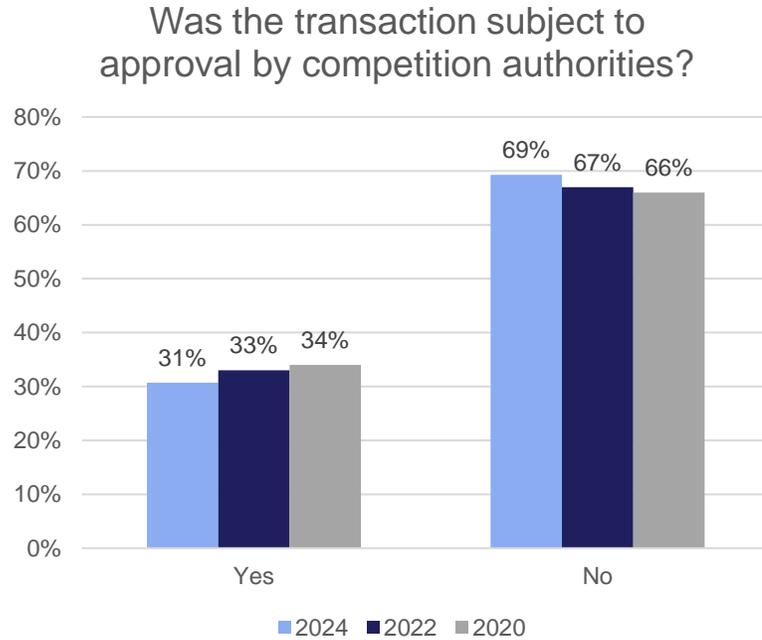
If yes, which FDI authorities?

FDI authorities



Only 8% of the transactions were subject to approval by FDI authorities. In most cases Lithuanian FDI authorities approval was necessary.

Competition clearance

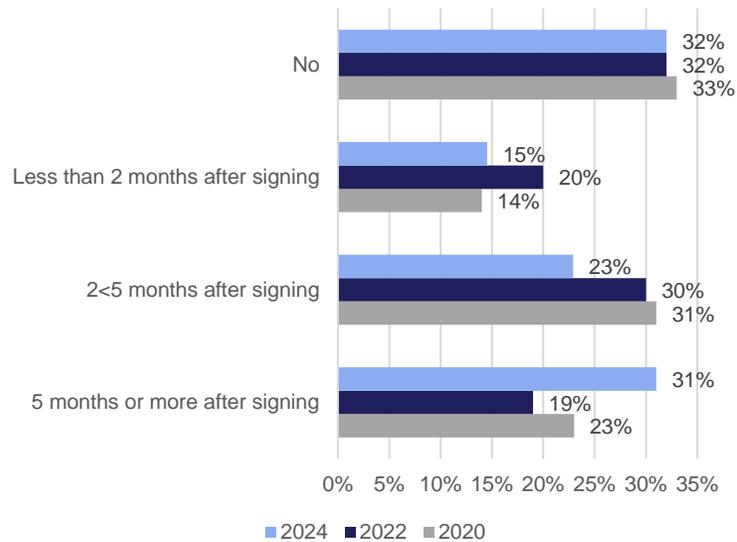


If merger clearance is needed, the most common jurisdictions are largely in line with Target's headquarters.

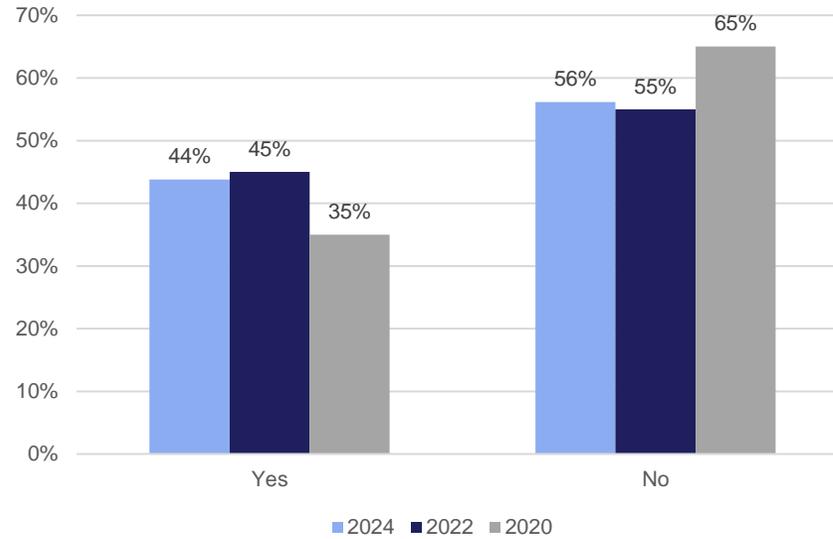
A "hell or high water clause" is rarely used.

Long stop date

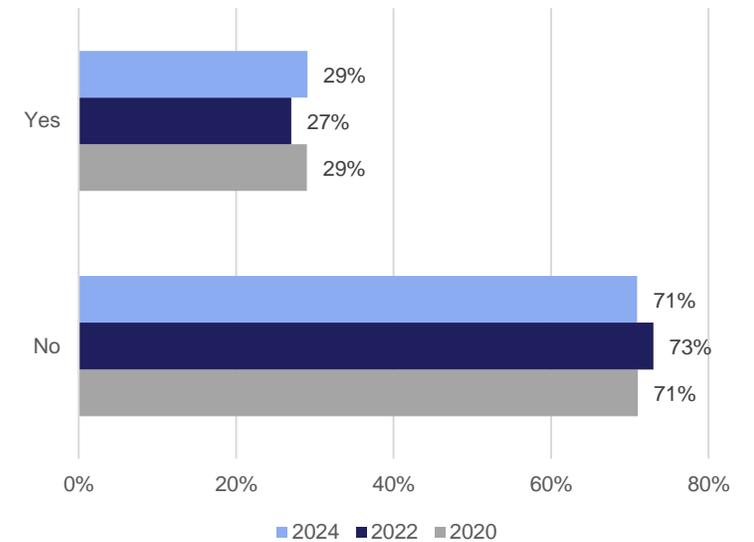
Was a long stop date used, and if yes, how long was the period?



Is there a break fee or exit penalty?

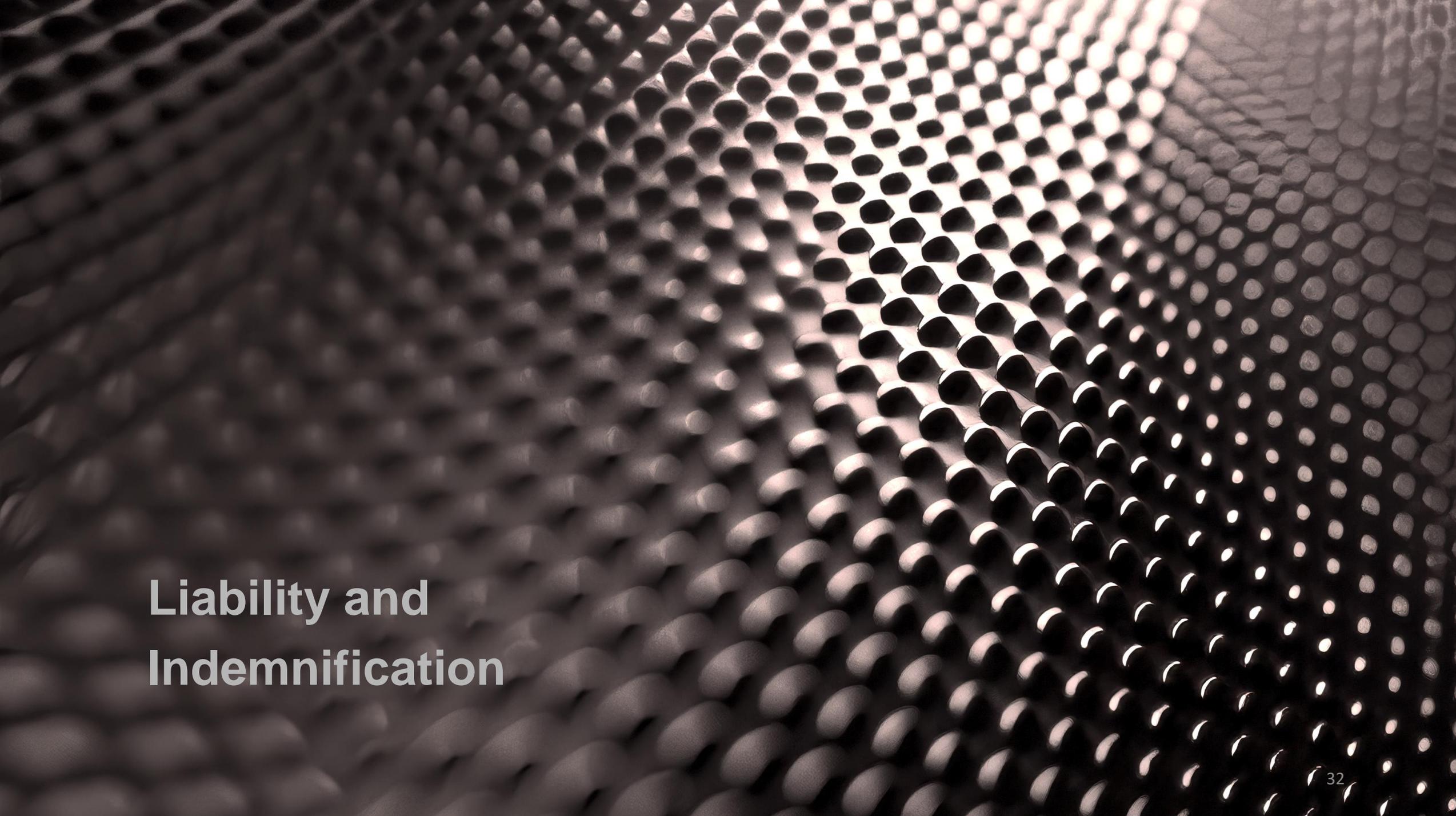


Does the agreement allow to recover loss of profit?



The use of the long stop date has remained quite similar across the periods studied and remains at the level of two-thirds of the analysed transactions. The most commonly used long stop period has increased.

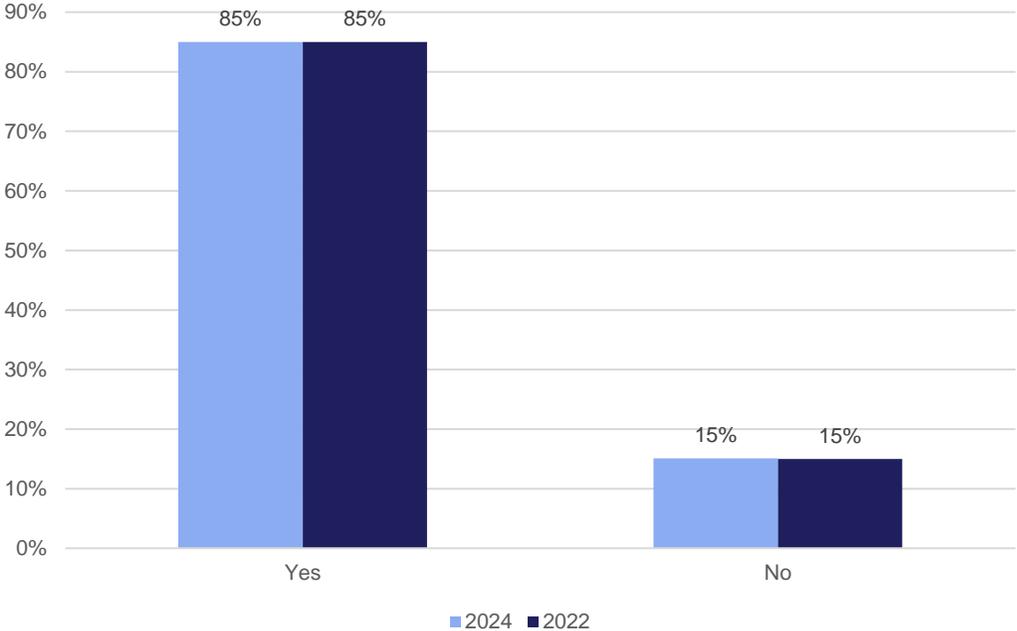
A break fee (for not meeting the long stop date) is used in almost half of the occasions. In the vast majority of the transactions, the agreement provides for restrictions on recovering lost profit, similar to the previous period.



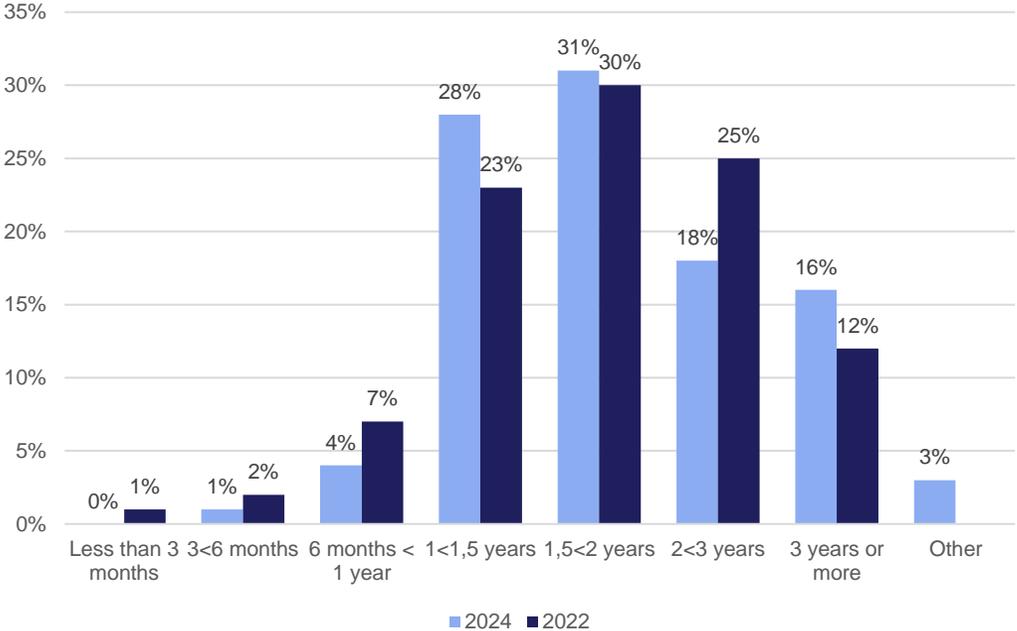
Liability and Indemnification

Survival of warranties

Express definition of survival of warranties

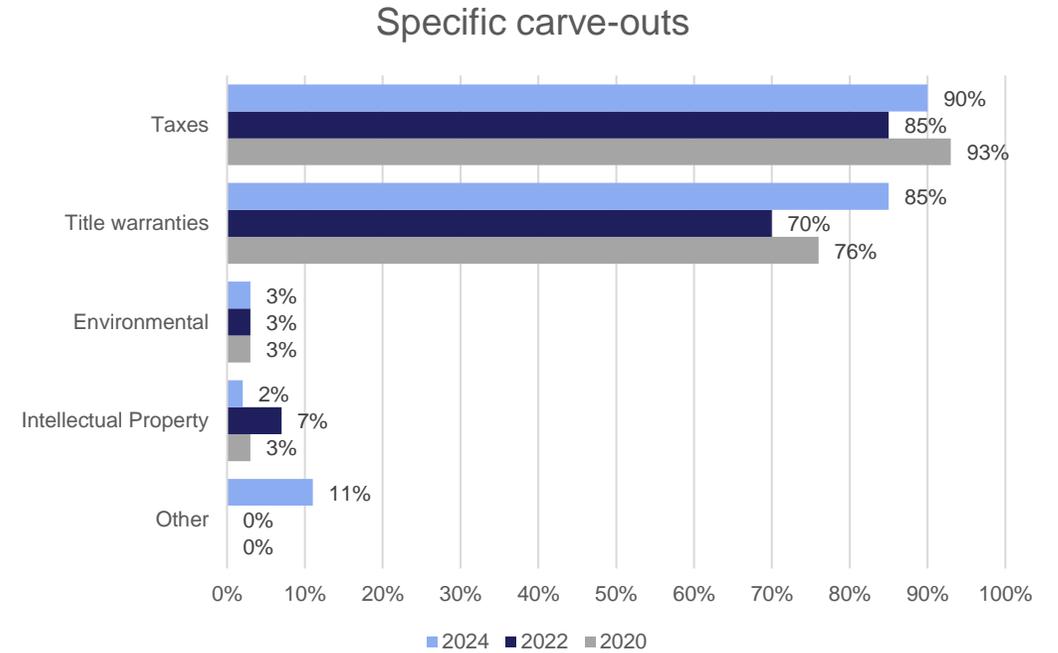
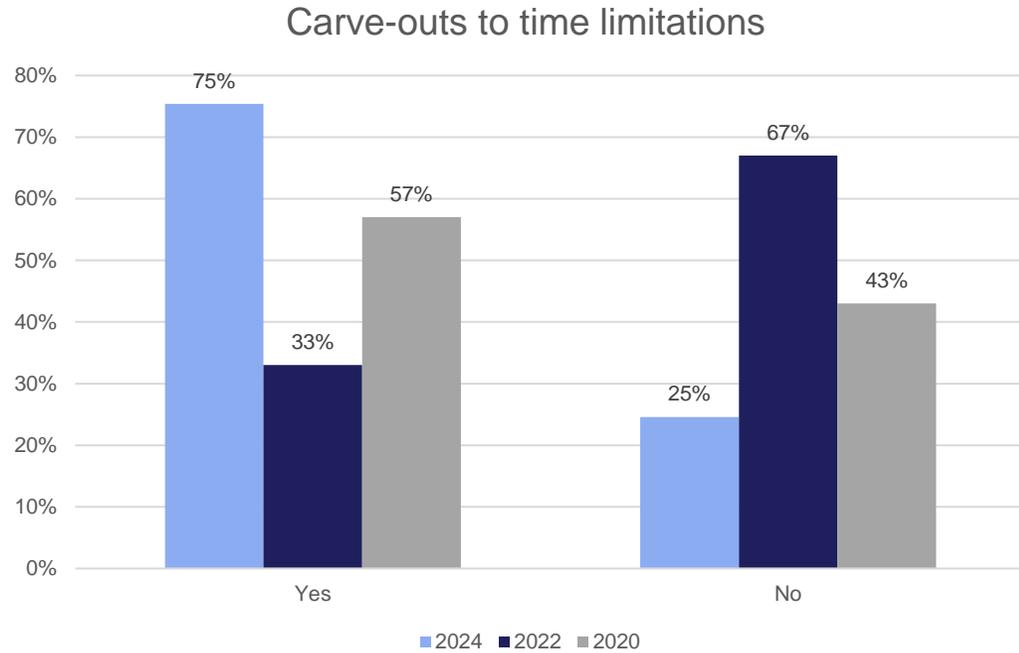


Survival period



The survival period of warranties is defined and limited in the vast majority of transactions, with a median survival period between one and two years.

Survival of warranties carve-outs

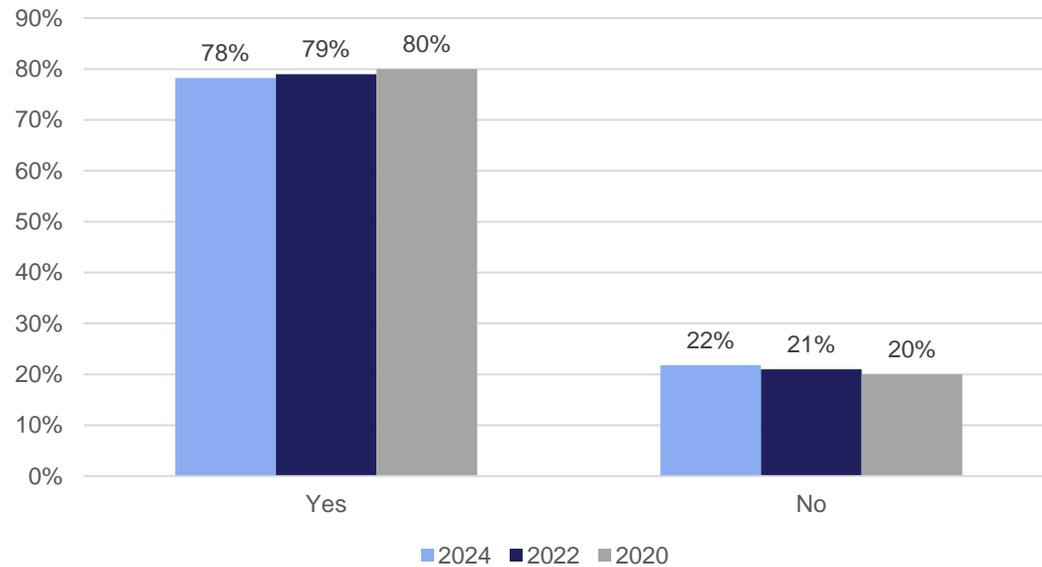


The use of carve-outs from general time limitation of warranties has increased significantly compared to 2022.

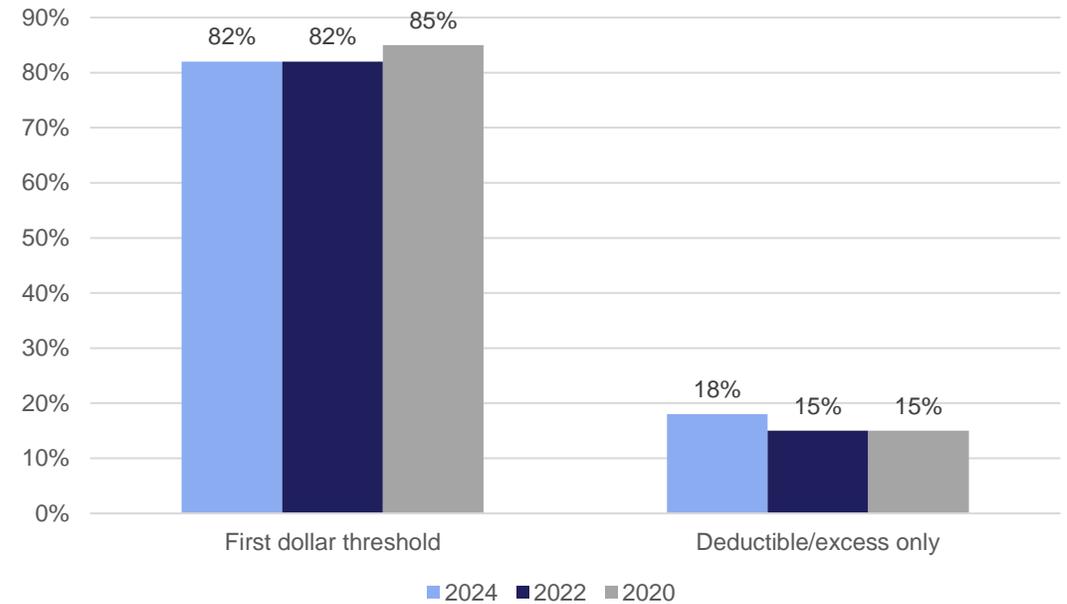
Tax and title warranties remain the most common carve-outs from general time limitation.

Baskets and thresholds

Baskets, *de minimis* or thresholds for asserting claims under the warranties?



Excess only or first dollar threshold

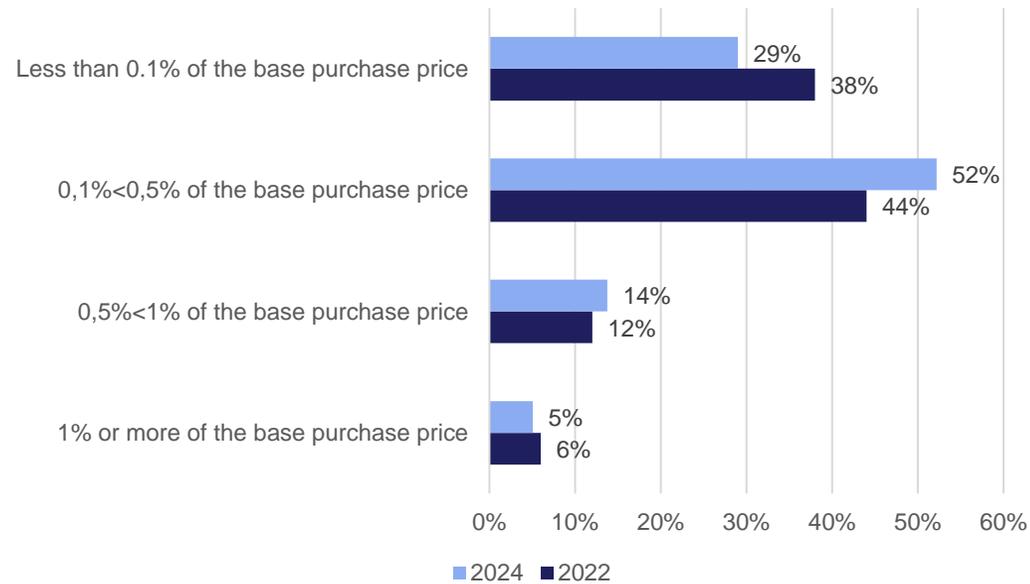


The use of baskets/thresholds continues to be a common practice.

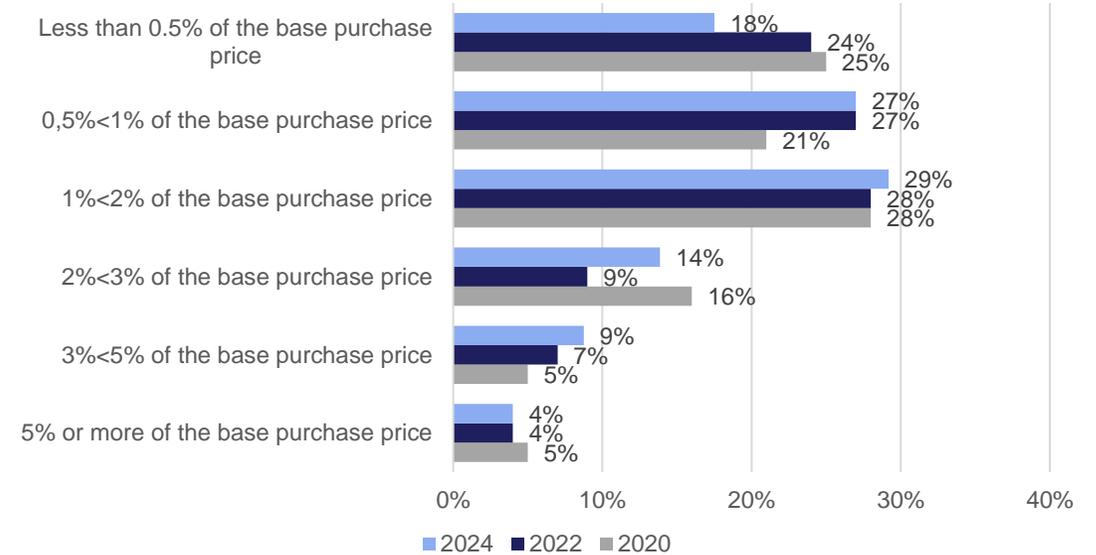
Typically, baskets/thresholds in the Baltics are *first dollar* (not deductible), as has also been the case in all previous studies.

Thresholds for claims and baskets

Amount of threshold per claim



Amount of basket/threshold for the aggregate of all claims

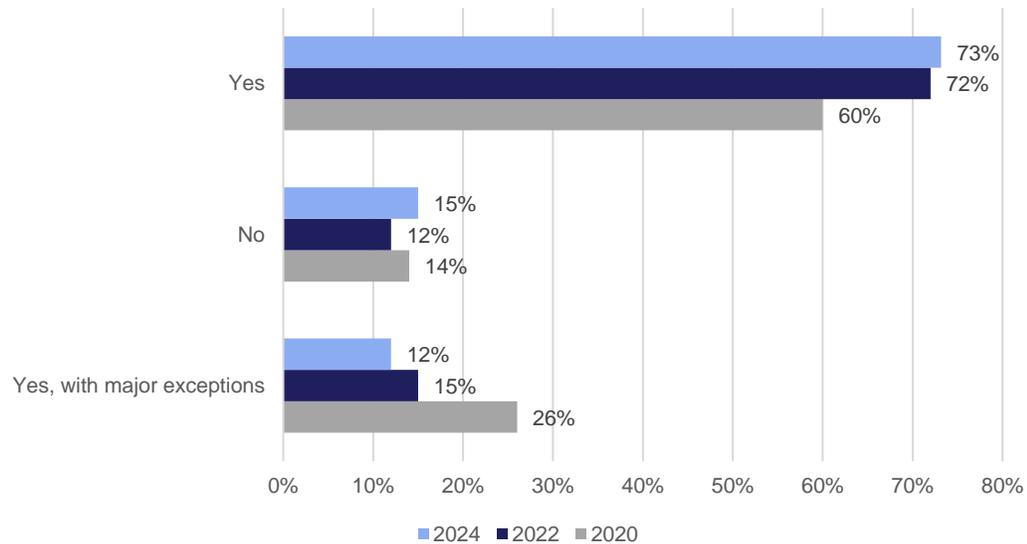


If used, the claim threshold was predominantly less than 0.5% of the purchase price, the median being around 0.1% of the purchase price.

The median for the claim's basket continues to be around 1% of the purchase price.

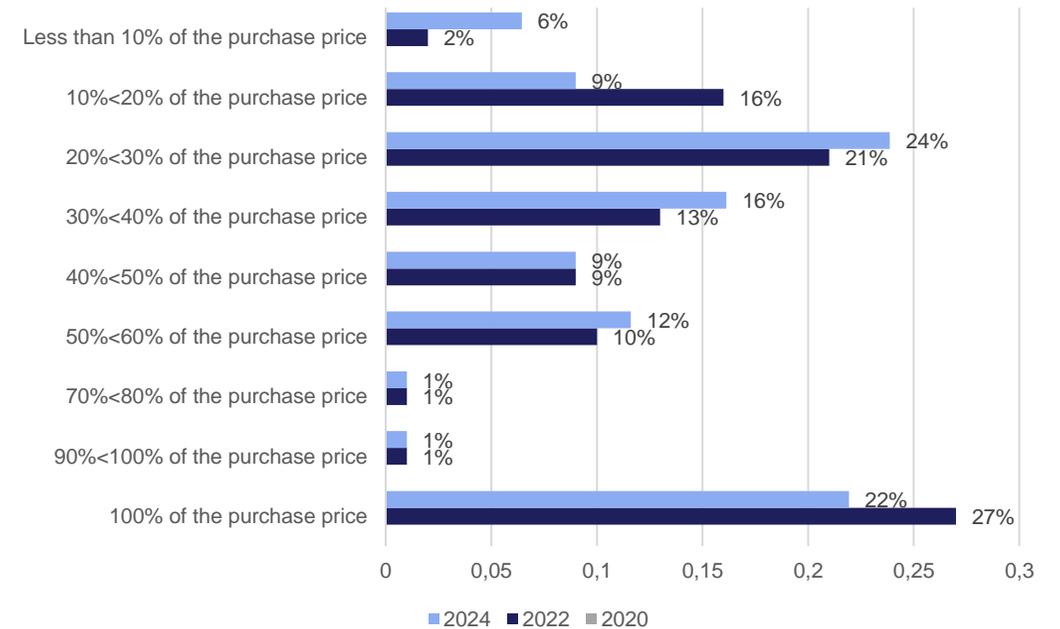
Overall cap on liability

Is the Seller's liability for breach of the representations and warranties limited to a maximum total amount?



The liability cap continued to be prescribed. In some cases, it was prescribed with major exceptions (e.g. title or tax warranties).

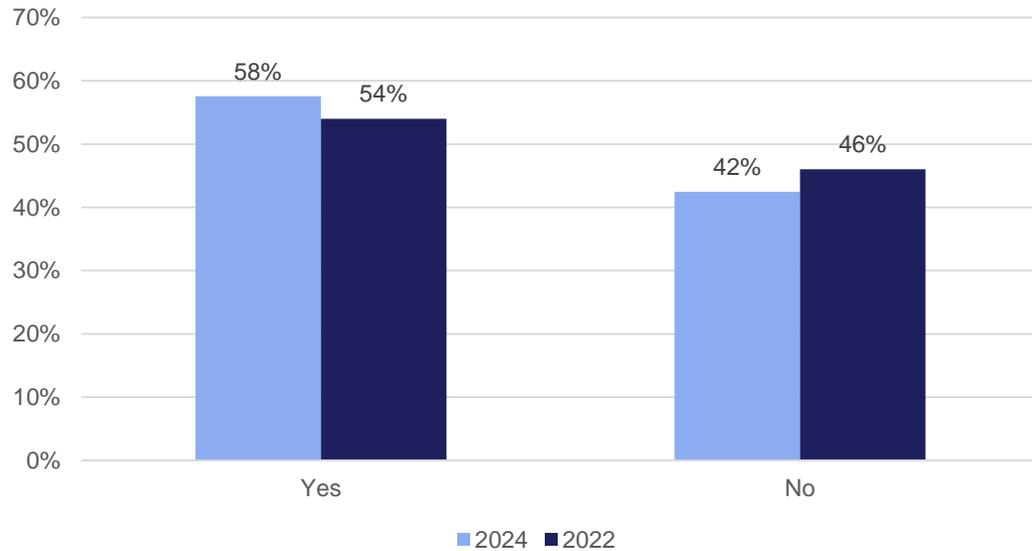
Amount of cap on liability



The overall liability cap was predominantly 20%-60% of the purchase price or 100% of the purchase price.

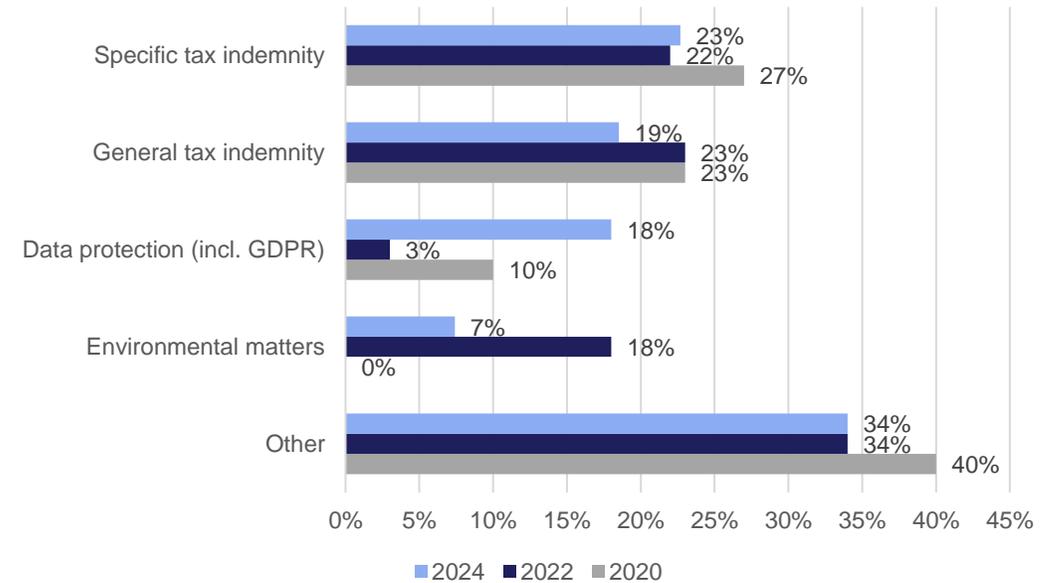
Losses and specific indemnities

Does the agreement provide for specific indemnities?



In slightly more than half of the transactions, the agreement provided for specific indemnities in addition to warranties.

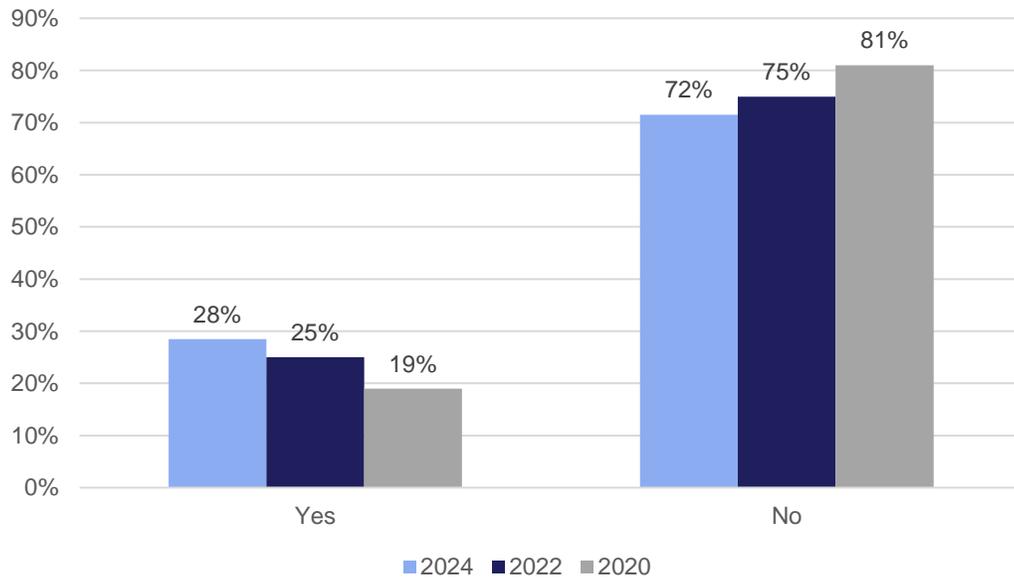
If yes, what specific indemnities are requested?



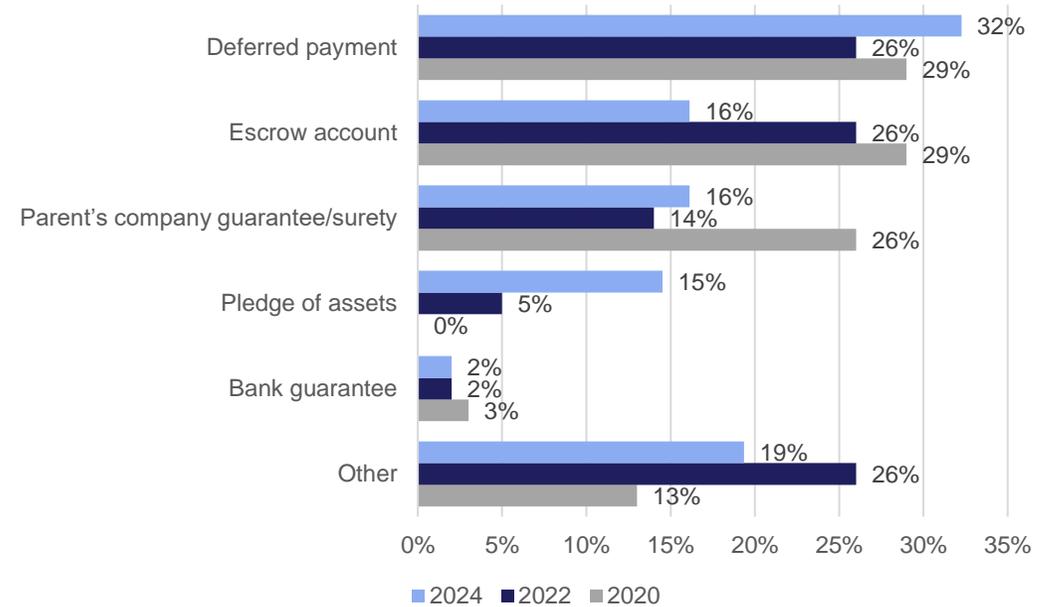
If the agreement provided for specific indemnities, the most common was specific or general tax indemnity.

Security for Seller's Obligations

Does the agreement provide for security for the Seller's obligations?



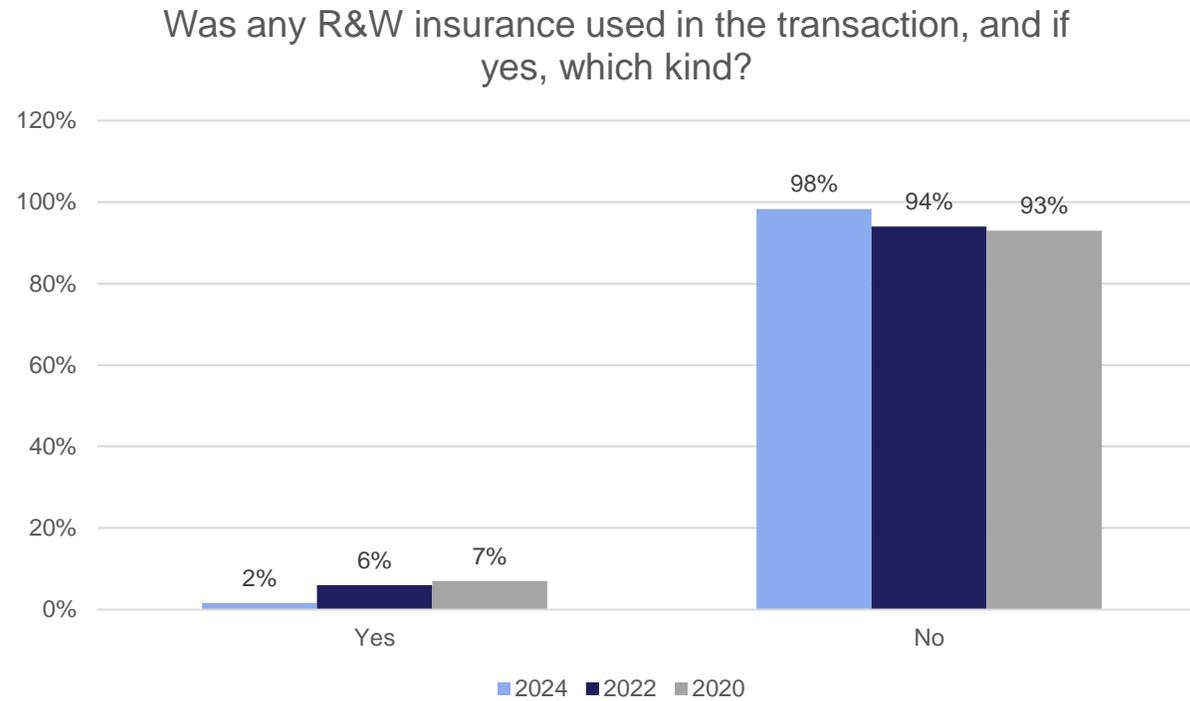
Form of security of Seller's obligations



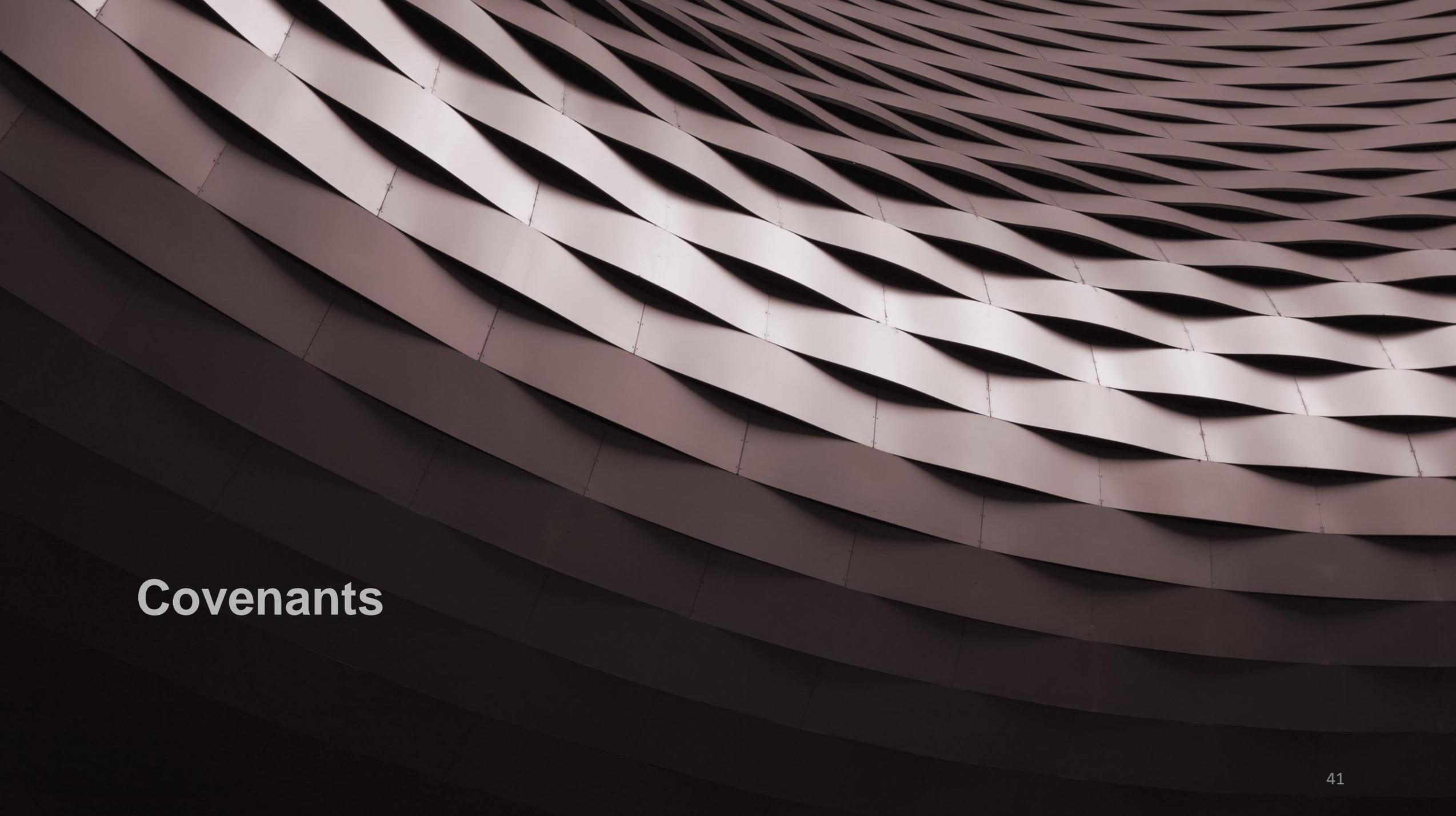
Similarly to previous periods, the Baltic M&A transactions do not commonly provide for security for the seller's obligations, although such usage is increasing.

If security was used, deferred payment was most commonly used. Escrow, pledge of assets and parent's company guarantee/surety were also used in similar amounts.

M&A insurance



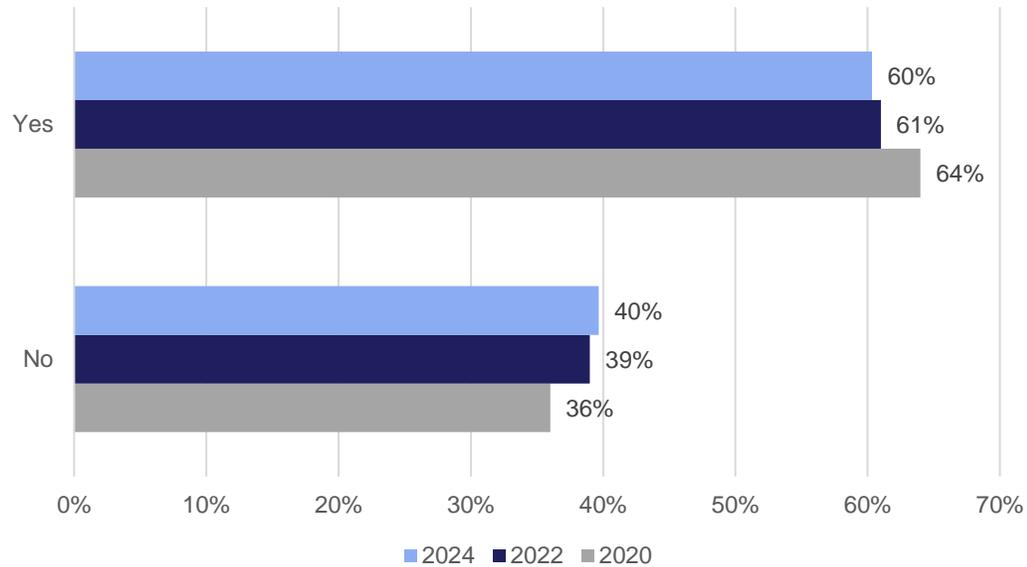
The usage of R&W insurance in Baltic M&A transactions remains relatively uncommon.



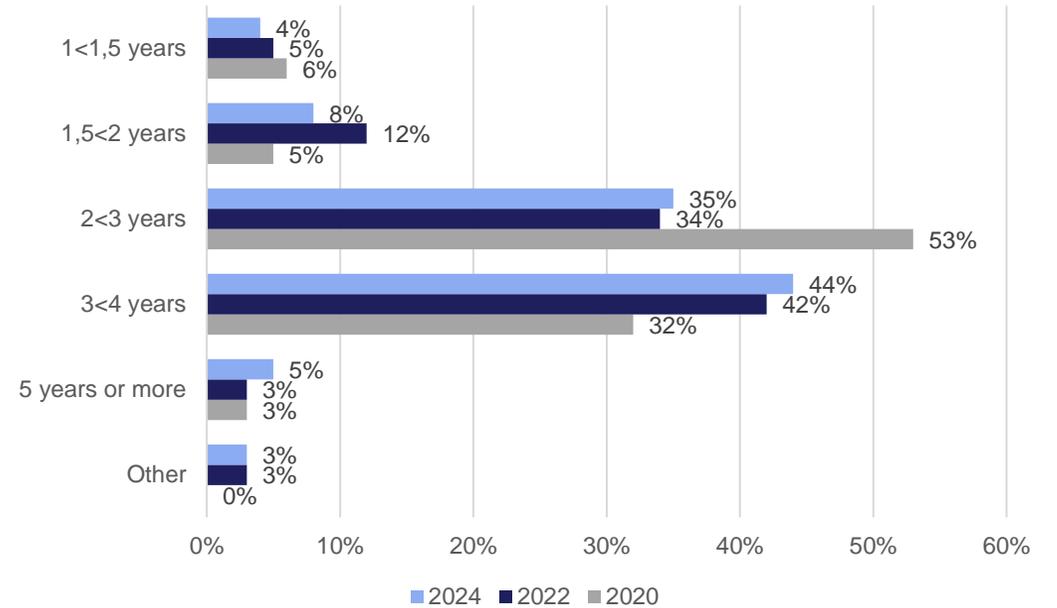
Covenants

Seller's non-competition obligation

Agreement imposing a non-competition obligation on the Seller



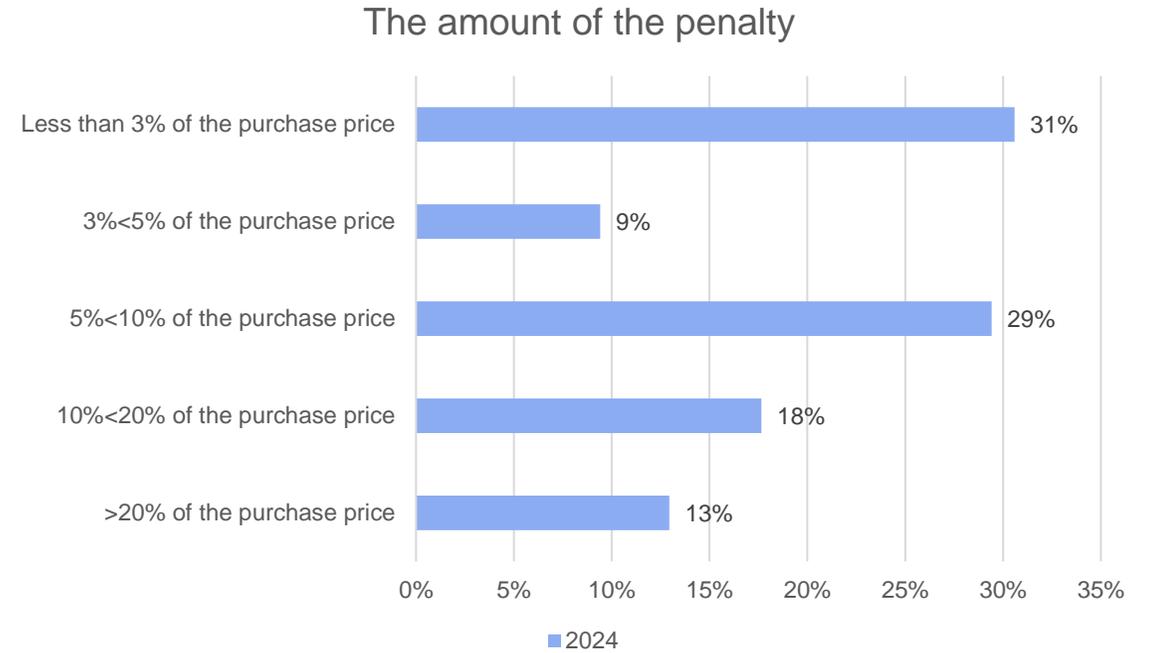
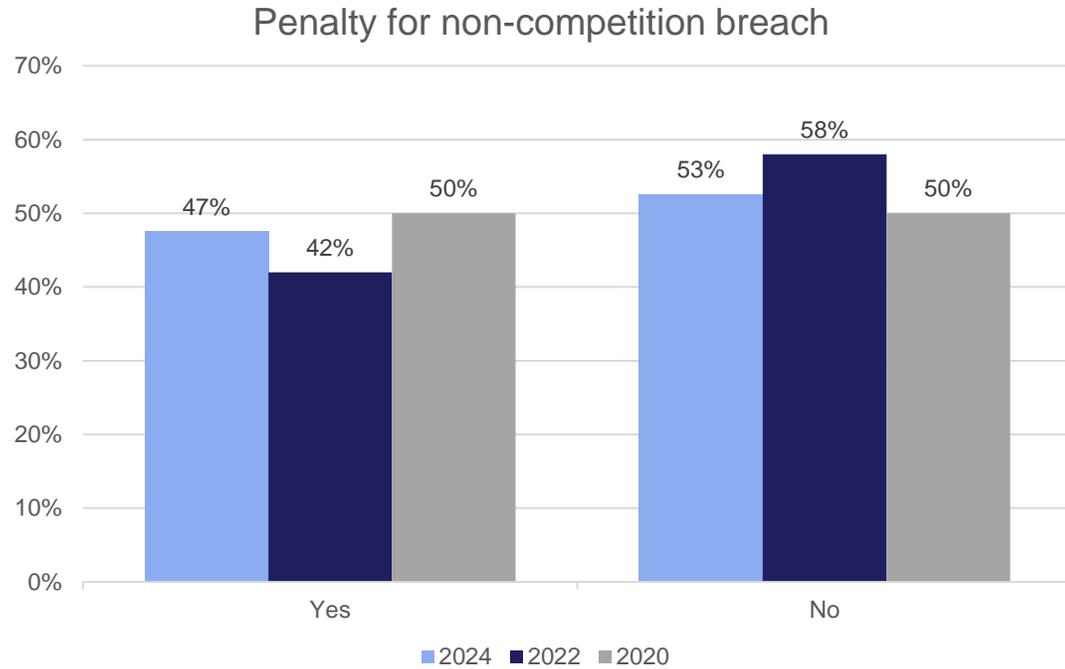
Duration of non-competition obligation



More than half of the analysed transactions prescribed a non-competition obligation on the seller.

If prescribed, the length of the non-competition obligation was commonly two or three years.

Seller's non-competition obligation

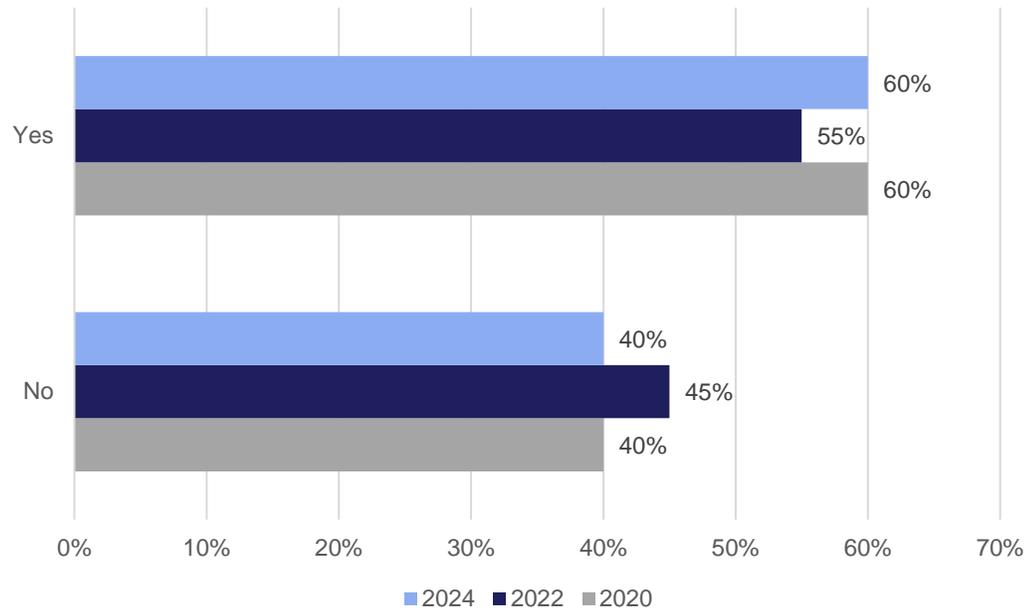


Penalty for the non-competition obligation breach was included in almost half of transactions.

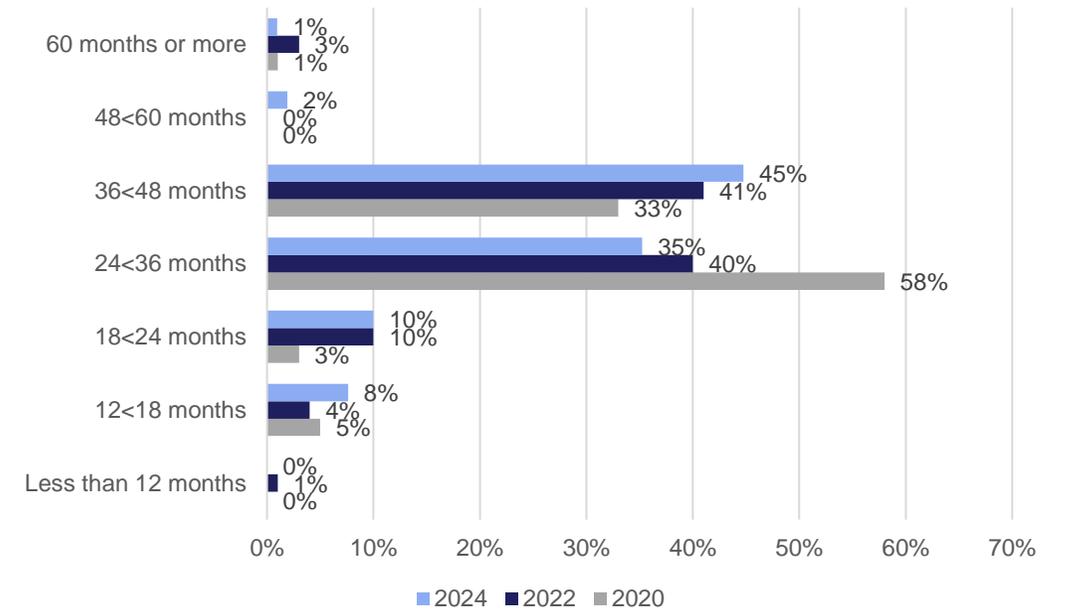
If included, the amount was mostly less than 10% of the purchase price.

Seller's non-solicitation obligation

Non-solicitation obligation of the Seller



Duration of the non-solicitation obligation

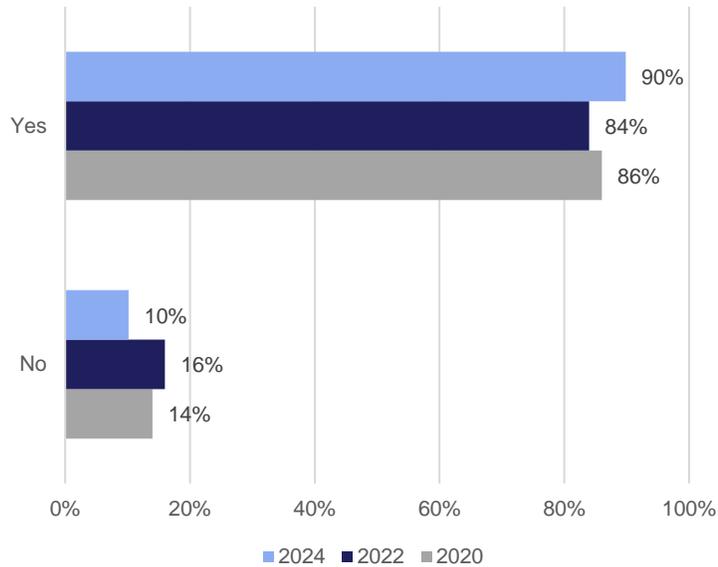


Non-solicitation obligation of the seller is increasingly more common than non-competition obligation.

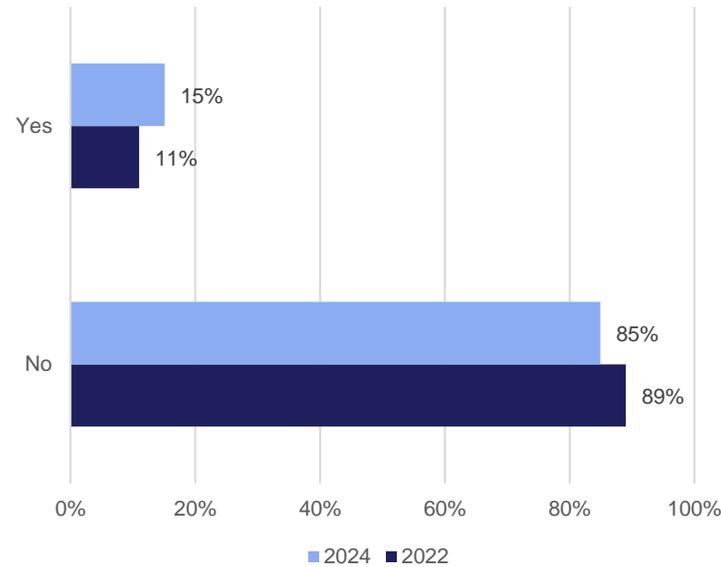
If used, the term of such obligation coincides with the term of the non-competition obligation (commonly 24-36 months).

Confidentiality obligation

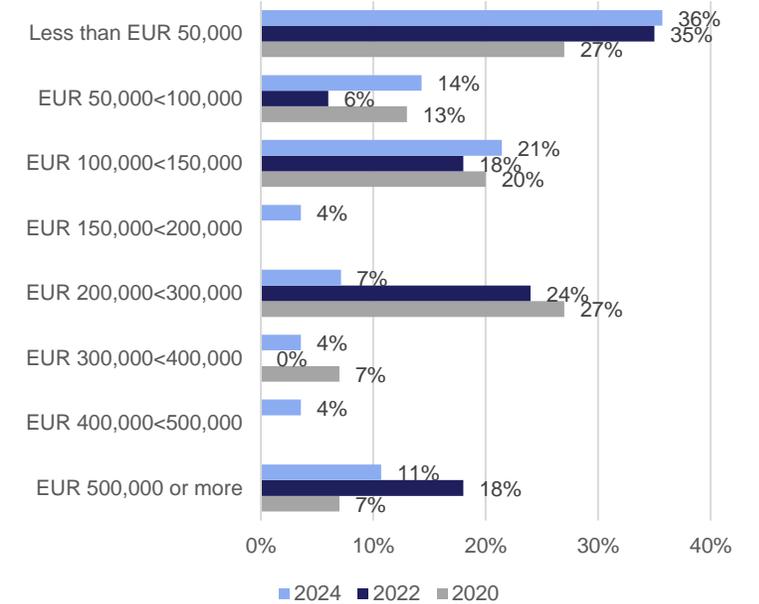
Agreement contains a confidentiality obligation



Agreement contains a penalty for breach of confidentiality



Amount of penalty (if included)

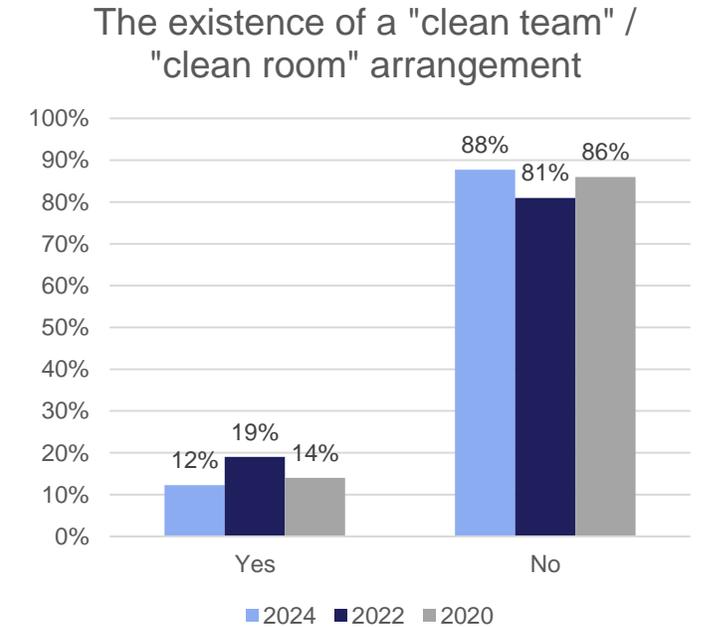
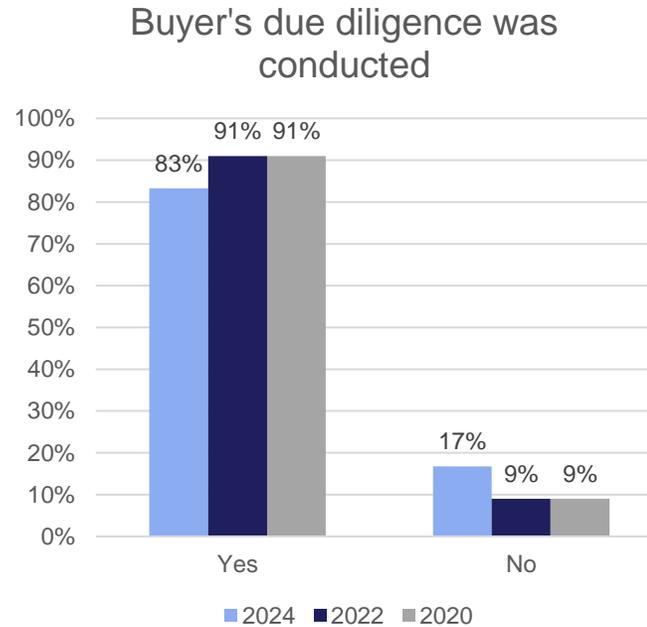
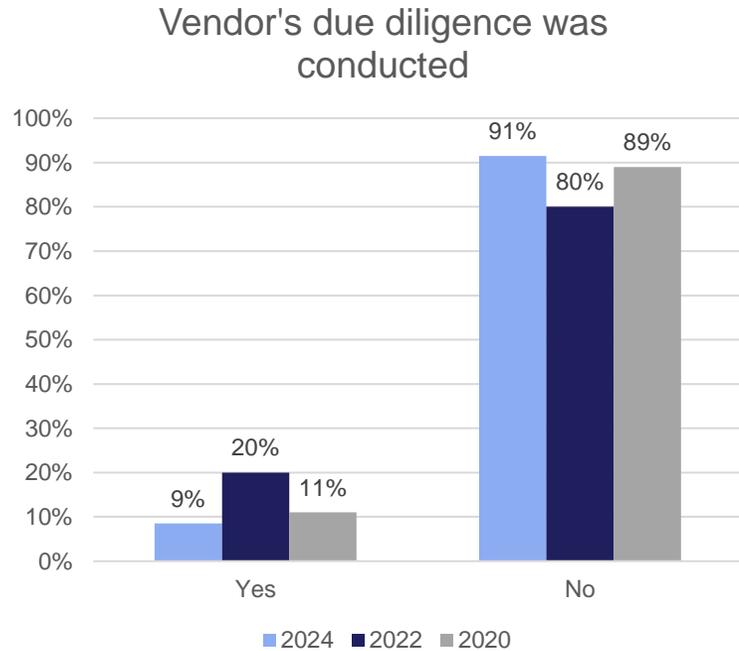


Most of the transactions prescribe a specific confidentiality obligation for the seller. However, the confidentiality obligation is not commonly secured by penalty.

If the confidentiality obligation was secured by the penalty, then the amount of such penalty was approximately less than EUR 50,000.

Due Diligence

Due diligence



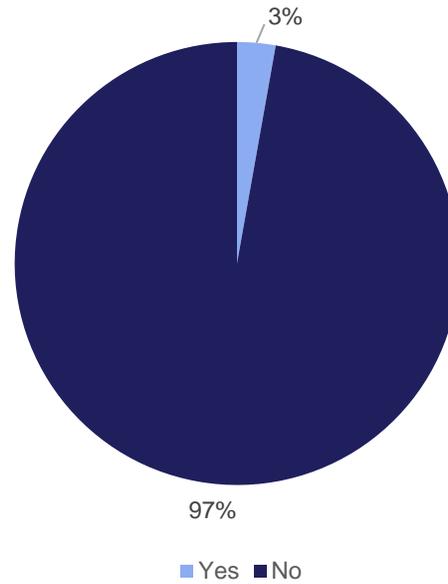
While buyers routinely carry out target due diligence, vendor's due diligence is still quite rare in the Baltic countries, although it is slowly gaining popularity. This aligns with the low usage of controlled auctions in the Baltics.

In line with previous studies, buyers conducted due diligence exercises in most cases, however, the trend is decreasing compared to previous periods.

Clean team arrangements to secure the most sensitive information are still rarely used in Baltic transactions, and their use decreased compared to the previous period.

Due diligence

Was there an ESG focus in the DD process?



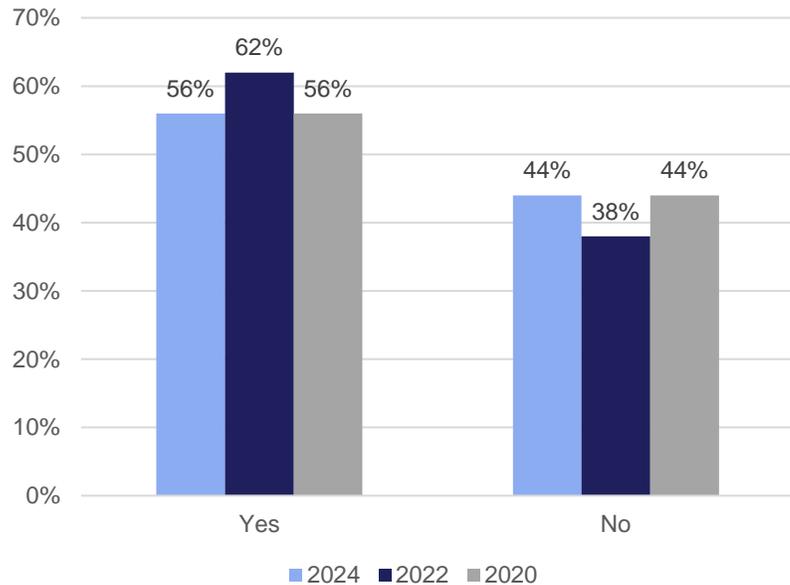
Despite the fact that ESG is becoming increasingly important every year, it is rarely a separate focus in the due diligence process.



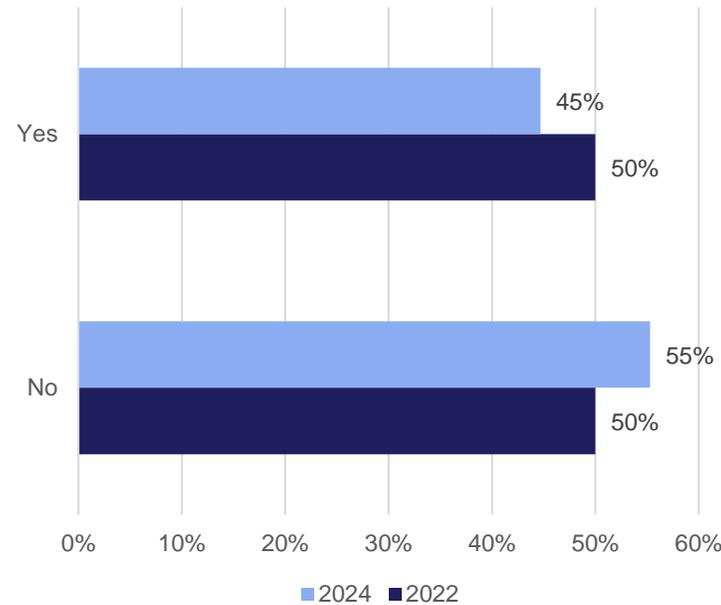
**Letter of Intent and
Length of Transaction Process**

Letter of intent

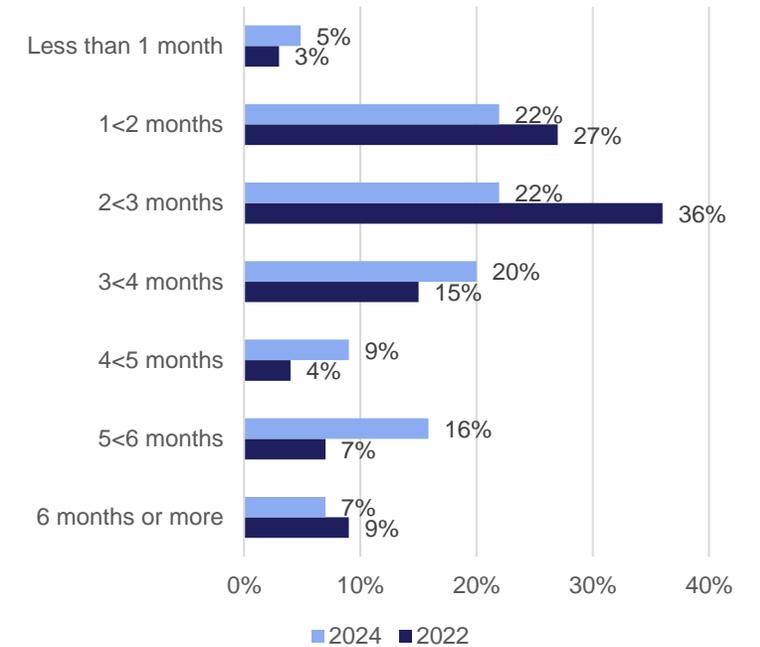
Negotiations formalised by signing a letter of intent, term sheet or similar document



Does the letter of intent provide for exclusivity?



Period of exclusivity

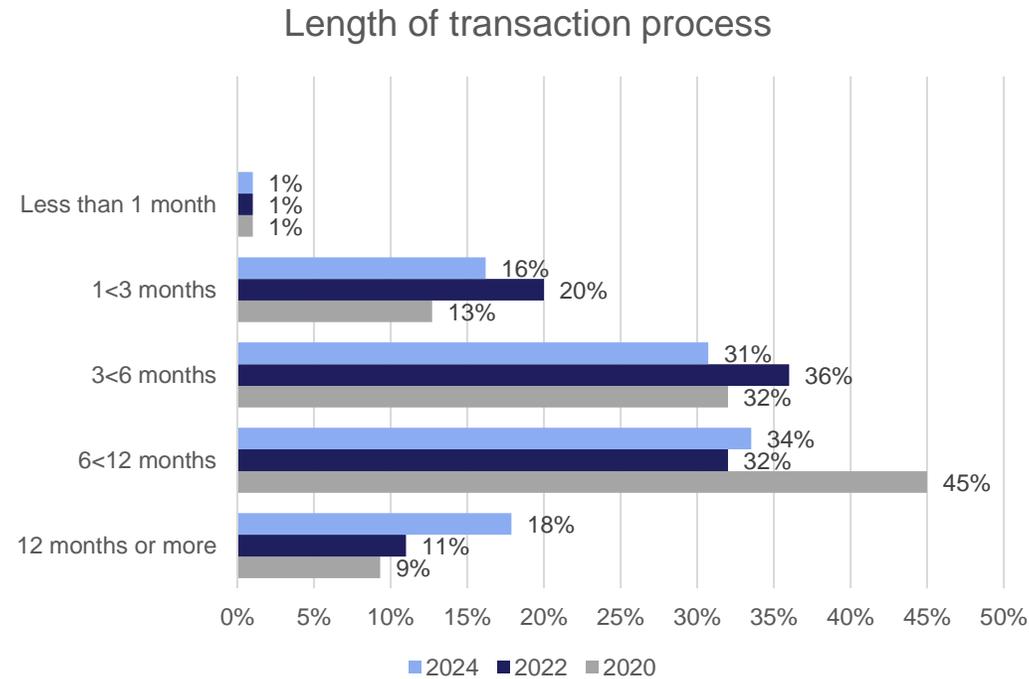


The usage of letters of intent (or memorandum of understanding, term sheets) has decreased compared to the previous period. The analysed transactions follow the trends of 2020.

If a letter of intent (or memorandum of understanding, term sheet) was used, then the exclusivity period was agreed in less than half of the occasions.

The length of the exclusivity period, if used, was most commonly 2-4 months.

Length of transaction process



The average length of a transaction process has roughly stayed the same.

Final remarks

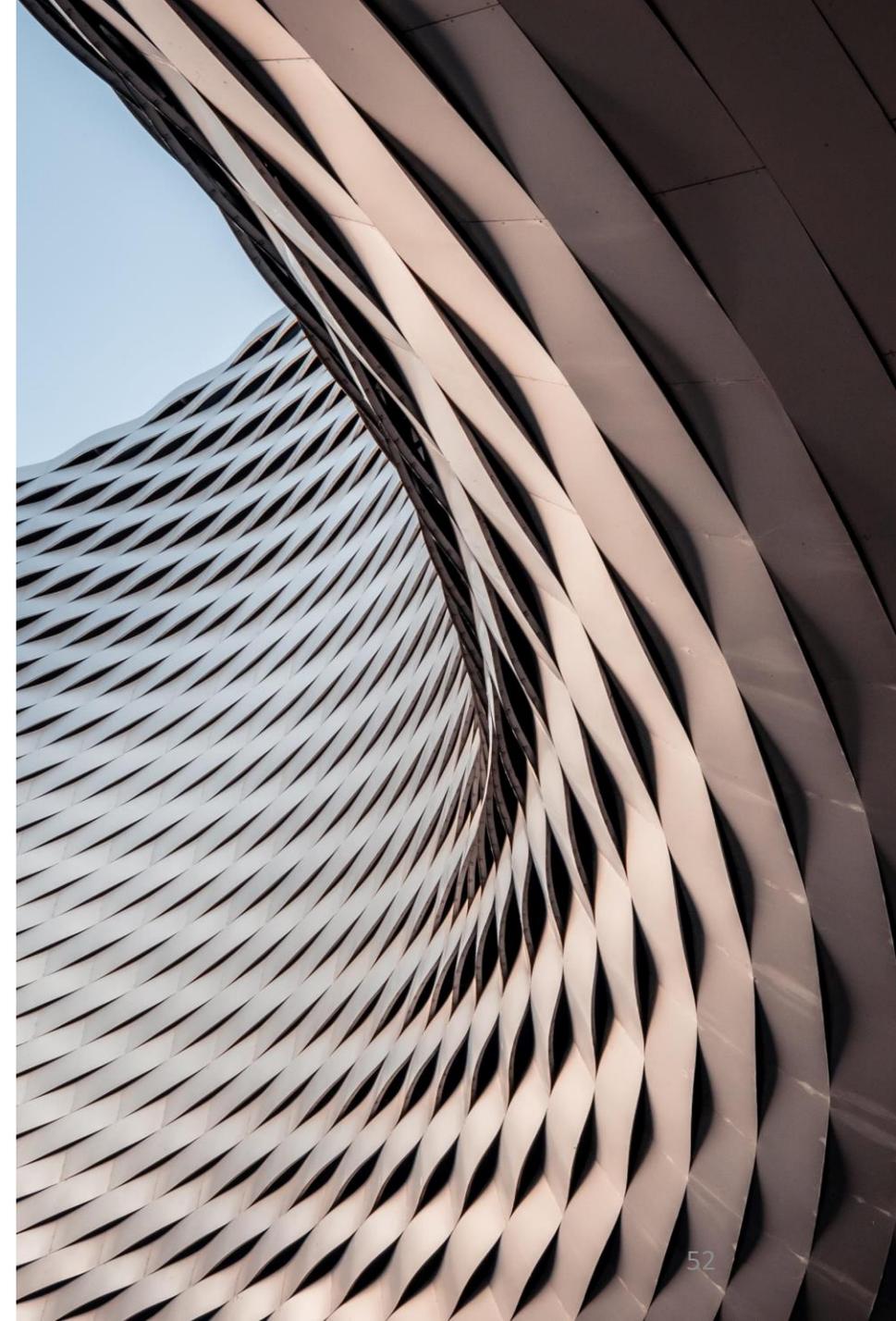
The survey analysed 179 private M&A transactions completed during the period of April 2022 – March 2024. The period included turbulent times due to macroeconomic and geopolitical issues (such as the war in Ukraine). Despite this, the Baltic M&A market was reasonably active, especially in Lithuania.

In 2022–2024, the most active economic sectors in the Baltic M&A market were energy & utilities. The share of Technology M&A transactions dropped significantly.

Overall, there were no significant changes in M&A market practice. Furthermore, there were no major changes as to whether it was foreign or local shareholders selling businesses in the Baltics. However, the financial investors were significantly less active sellers and buyers compared to strategic players.

Although transaction values vary greatly, the value of the most typical Baltic M&A transaction fell back to the EUR 1–10 million bracket. There were also very few so-called mega deals (over 100 million euros).

In 2024, we introduced some new questions to expand the amount of interesting data. It can be generalised that Baltic M&A counterparties are comfortable with using internationally acknowledged transaction tools, such as price adjustments, MAC clauses, liability limitations (warranty limitation periods, overall caps, claim baskets and thresholds). However, R&W insurance is still very seldom used in Baltic M&A transactions.



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