Ellex

Transaction Radar

Summary of 2024

ellex.legal

Ellex

Ellex Transaction Radar Summary of 2024

Interest, inflation, Ukraine, AI, Trump, Syria, PE dry powder...

Comments from:

Risto Vahimets, Gerli Kivisoo, Rutt Värk, Dmitri Rozenblat, Sven Papp

Summary

Estonian and global situation 03-04
What does the future hold? 05

Charts & biggest Estonian and global deals 05-06
- Noteworthy global M&A transactions in 2024
- Noteworthy M&A transactions in 2024
- TOP global transactions in 2024
- Total number of transactions 2022-2024
- Total number of transactions in the II half of the year (2022-2024)
- Total number of transactions in the last 4 quarters

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

Mergers and acquisitions in the technology sector 07
Noteworthy venture capital transactions in Estonia 07
Chart: 2024 venture capital transactions 08

Rutt Värk, Counsel / Ellex in Estonia

Tax authority’s guidelines for the taxation of the debt push down structure are on its way 08-09

Dmitri Rozenblat, Counsel / Ellex in Estonia

Strange year for the public securities market 10

Gerli Kivisoo, Partner / Ellex in Estonia

2024 transaction year, summary & trends 11
Charts:
- EMEA M&A activity, 2021-Q3 2024
- Nordics M&A activity, 2021-Q3 2024
- CEE & SEE M&A activity, 2021-Q3 2024

Sven Papp, Partner and Co-Head of M&A / Ellex in Estonia

Contacts 12

Ellex Transaction Radar summarises the most relevant transaction market trends in 2024 in Estonia

There were 36 more transactions in 2024 than in the previous year (237 vs 173). The positive trend in terms of the number of transactions only lasted for the first half of the year and was followed by a recess. Similar dynamics are present in the general investment volumes of companies, analysed by Statistics Estonia.

There were certainly more factors at play but the seven main topics addressed in the Transaction Radar affected the global transaction market in the ending year and will do so in 2025 as well.

Risto Vahimets, Partner and Head of M&A / Ellex in Estonia

A total of 173 transactions were registered in Estonia in 2024, divided as follows:

67

venture capital and technology transactions

86

traditional M&A transactions

7

issues (incl. OTC issues)

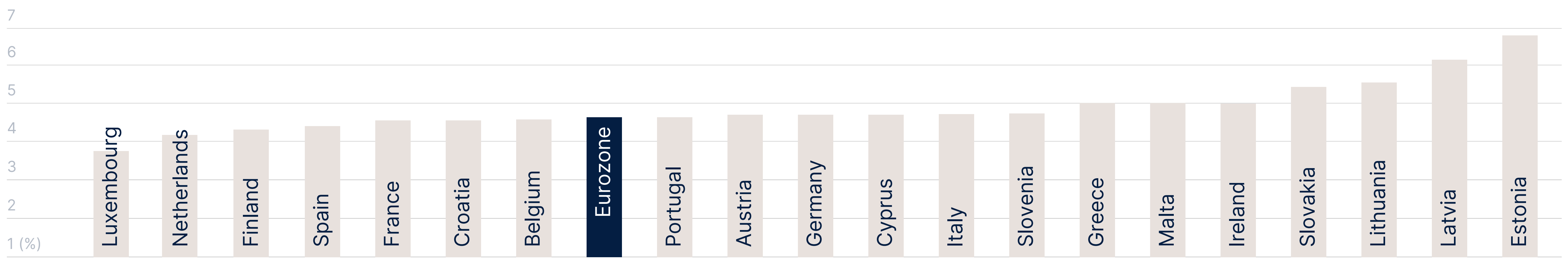
13

major real estate transactions

Stabilisation and lowering of interest rates had a positive effect by increasing the value of assets and bringing down the cost of financing. This in turn improved the outlook of realising assets for sellers who had been long waiting for a transaction. The markets are expecting interest rates to continue falling also in 2025, even if slowly. In December the European Central Bank lowered the base rate by 0.25%.

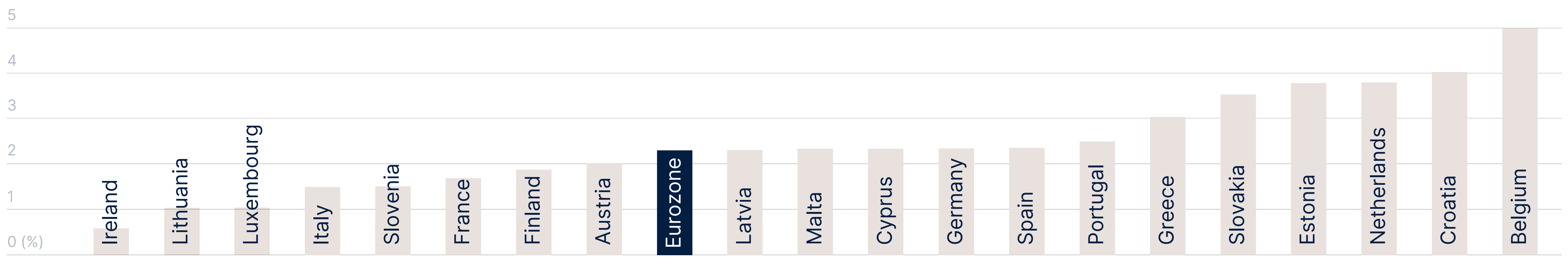
The European Central Bank's outlook on the cost of business loans in the eurozone is presented in the following table. Estonia is still at the top of the most expensive business loans. This does not create favourable conditions for transactions.

Interest rates on business loans



Inflation has dropped from its peak in Estonia but this indicator still shows inconvenient fluctuations from time to time for various reasons, such as the recent small increase in the consumer price index to 3.8% at the end of November. There are different reasons for this, from the energy price, appreciation of the dollar, workforce shortage or simply inertia. In the European Central Bank's reference table, Estonia is the fourth eurozone country in terms of inflation.

Inflation



A full-scale war in Ukraine has been going on for nearly three years. In addition to the war in Europe, the events in Syria, deepening cracks in European unity as well as Donald Trump's victory in the US presidential election add to the strain. The latter bears particular significance and weight in light of the anticipated trade wars declared by Trump. Any tariffs to be imposed will certainly hamper world trade turnover and global economic growth, also the uncertainty of the where, when and how will make transactions more complex and force the participants to "rush slowly".

When it comes to artificial intelligence, a consensus is forming that its significance for the world can already be felt but it requires conscious leadership and reflection. In which area and how are now the hottest questions in this regard. Investors do not have the answers yet either but cashflows have already made their way to AI developers. Since many major AI developments are currently still aimed at improving and boosting the efficiency of internal processes, the relevant information is not widely accessible.

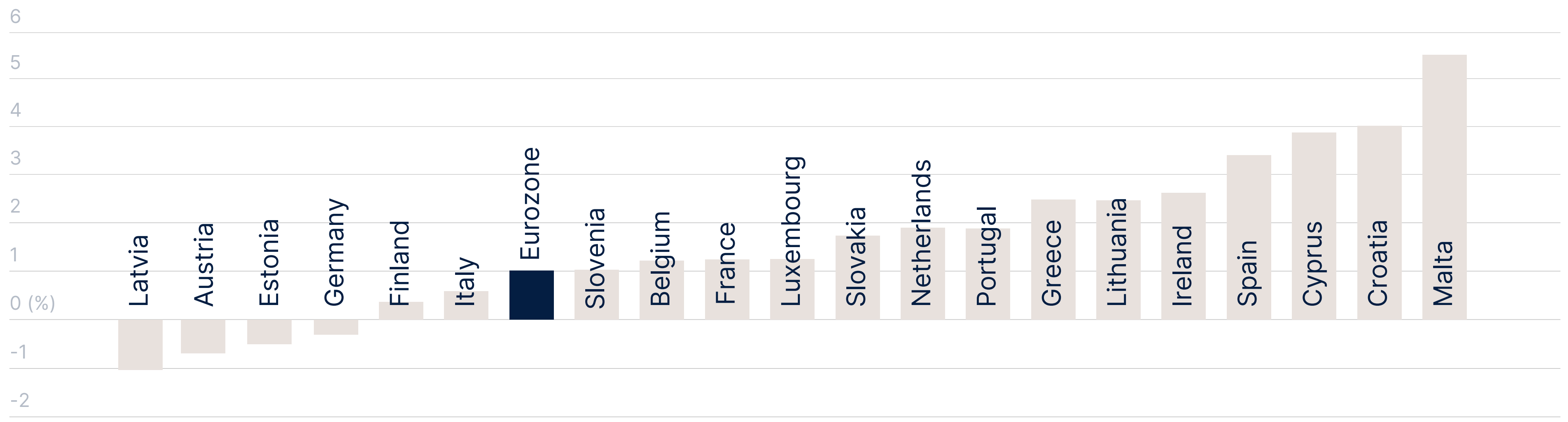
Private capital funds, full of extremely intelligent people and the skills to use artificial intelligence have been on hold in 2024 and by the end of the year, there have been talks on the market that the waiting is over and 3.9 trillion dollars is starting to make its way into transactions.

Against this background, in 2024 there were a total of 67 venture capital/technology transactions in Estonia, 13 major real estate transactions, 7 issues (including OTC issues) and 86 traditional M&A transactions (in total 173).

The setback that hit our market in the second semester correlates with the statistics for the EMEA region more widely (Datasite Deal Drivers EMEA Q3 2024 report), according to which the EMEA transaction markets began to cool down in the summer.

The economic downturn in Estonia has continued for 10 quarters already. For year-on-year comparison, the economic recession in the third quarter this year was 0.7%, which is significantly lower than in the previous quarters. However, it must be noted that according to the European Central Bank data, Estonia and Latvia have the weakest economic growth at the end of the third quarter. Unlike the 2008-2010 economic crisis, it is the southern countries in Europe that are doing well for themselves, with a noticeable revival in tourism after the Covid pandemic.

Real GDP growth – quarterly



October brought a significant positive change in Estonia in terms of export and import volumes. Estonian export increased 12.2% year-on-year and import by 10.2%. Let us hope that this was not a one-time anomaly, which is always a possibility for a country with such a small economy.

Export of goods	Import of goods
1 655.3 million euros	1 958.5 million euros
12.2%	10.2%
October 2024	October 2024

On a global scale, there has been a geographic shift for major transactions. Europe has had its share of transactions exceeding the ten billion dollar threshold, there were as many as four here this year. Whereas two of the over-ten-billion transactions were related to small Denmark: the Schenker and DSV transaction in logistics and the transaction for increasing the production capacity of Novo Nordisk in the medical sector. It is also noteworthy that the German Siemens is buying Altair Engineering in the USA for 10 billion dollars and there was a 16.4 billion dollar transaction in Germany's strong chemical industry with Adnoc acquiring Covestro. The Mergermarket analysis of EMEA transactions shows only two hot spots in Europe for the number of transactions - the UK and Ireland technology transactions and industry and chemical sector transactions in German speaking countries. The remaining heat chart is lukewarm.

It cannot be said for the US that there were any significant changes in the volume of transactions in the second half of 2024. The largest transaction of 2024 has been the acquisition of the food company Kellanova by the confectionery giant Mars for 36 billion dollars but the value of the transaction is in the range of the records of the first semester. Then ConocoPhillips acquired natural gas deposits in North America and production operator Burlington Resources for 36 billion dollars and Capital One Financial Corporation acquired the financial services payment platform Discover Financial Services for 35.3 billion dollars in North America.

In Estonia, a number of transactions were added to the list of technology sector transactions in the first half of the year, which saw the Starship (90 million euros, Stargate Hydrogen (42 million euros), Elcogen (30 million euros), Tuum (25 million euros) and Botguard (12 million euros) transactions. The energy sector saw the equity raising of Sunly for 60 million euros (in addition to the 300 million euro bond issue) and the Pactum AI (20 million euros), Modash (11 million euros) and e-Agronom (10 million euros) transactions.

Energytech remained the hottest sector in Estonia in terms of transactions. As many as 12 funding rounds of energy technology companies were carried out throughout the year. Other exciting sectors to highlight are the defence industry technology sector and companies like Wayren, Frankenburg, TechSecIntel, SensusQ and medical technology with 9 funding rounds in 2024.

Perspective of the near future

Six months ago I predicted that investment courage has returned and the transaction market will quickly revive. This prediction was too optimistic. However, I will still boldly stay by the same statement that in 2025 we will see the pace of the transaction market pick up because the basic data to support this is the same as back then.

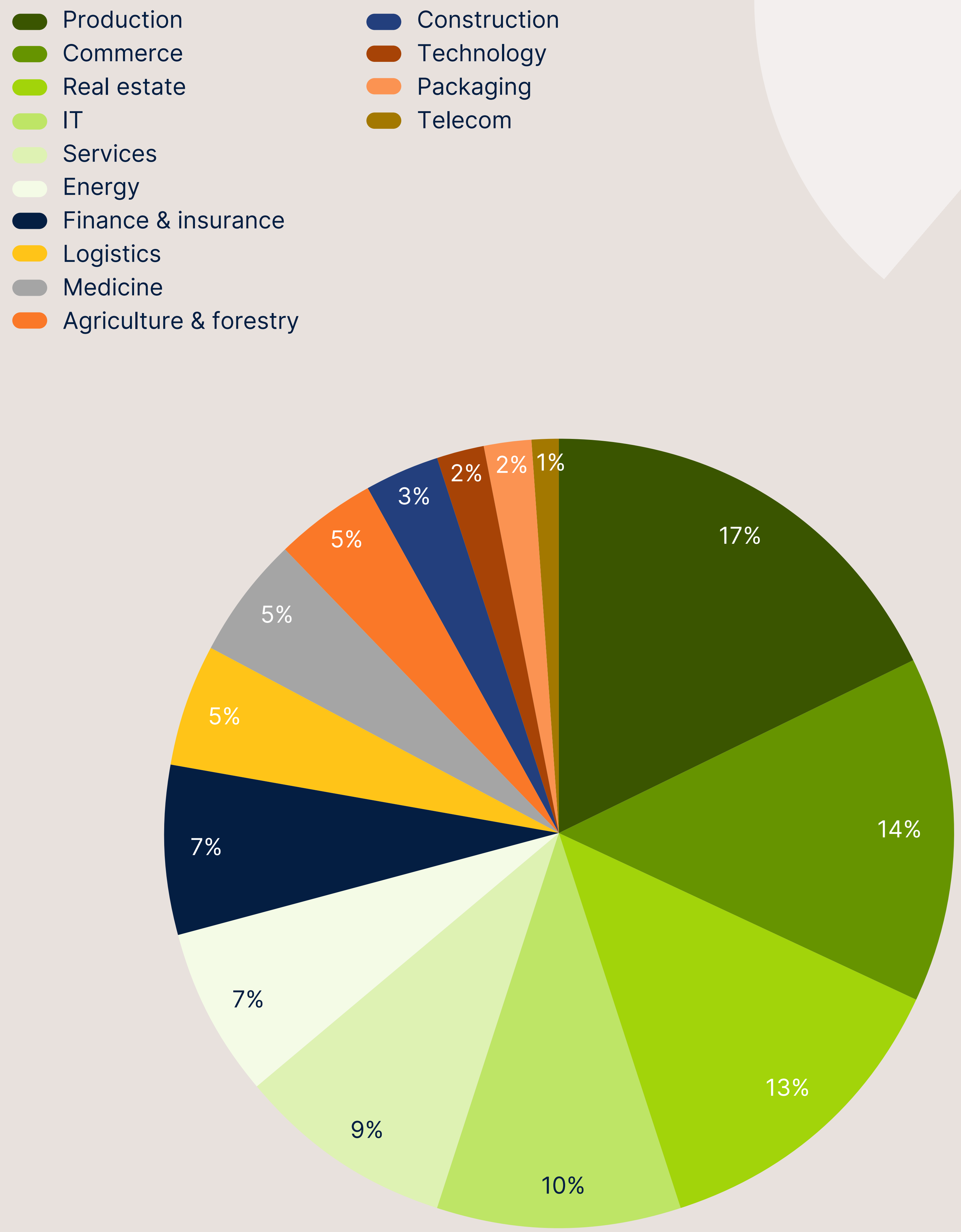
The world’s PE and VC funds are still saturated with money and need to start investing. Holding onto trillions of dollars is not sustainable in any way.

I can also see significant growth in the Estonian transaction market because the interest rates have stabilised at a lower level and the banks are open-minded about financing in Estonia.

The still-life in the real estate sector should also come to an end - shopping centres Viru Keskus, Kristiine Keskus and office campus Technopolis Ülemiste have broken the ice with their investment readiness.

In conclusion - if you want to acquire a company for a better price today, you should act quickly already.

2024 M&A and real estate transactions (%)



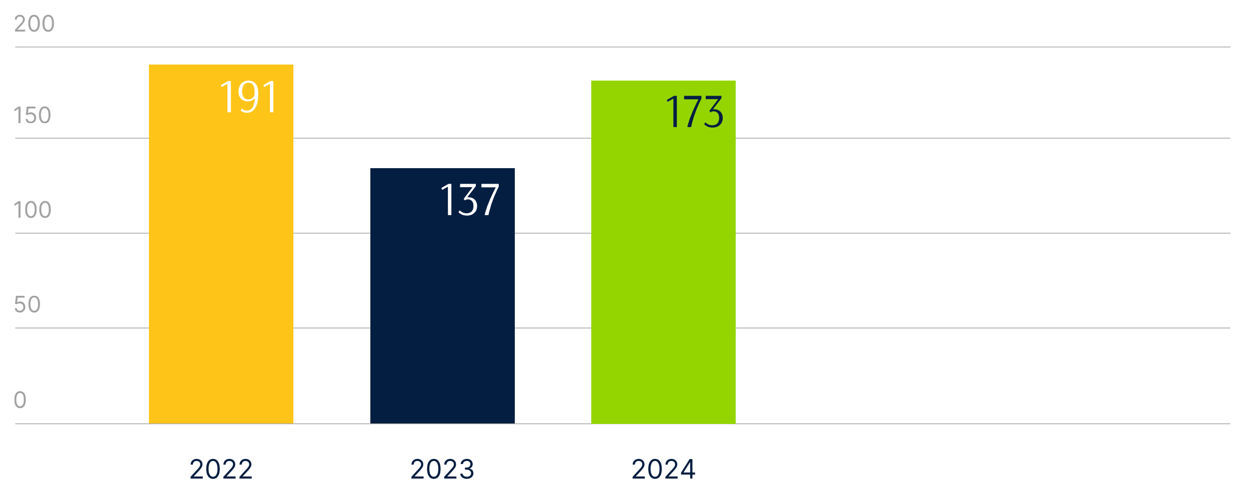
Noteworthy M&A transactions in 2024

- Mainor Ülemiste and Technopolis Ülemiste - major office real estate transaction
- Eften bought Citycon's Kristiine Keskus shopping centre - major commercial real estate transaction
- Qualitista (Klaus) - technology M&A as a trend
- INHUS acquired TMB Element
- Nordecon sold its majority shareholding in NOBE for 9 million euros
- Telema – private equity (Livonia) is on the buying side again
- Tallink takeover plan - changes in the market of publicly traded companies
- Indemnity insurance company Gjensidige acquired by ERGO
- VINCI sold its majority shareholding in AS Trev-2 Group, one of the largest Estonian infrastructure companies
- Spanish company Soler & Palau Ventilation Group acquired minority shareholding in ETS NORD
- Operail sold its business to Tiigi Keskus for 19 million euros

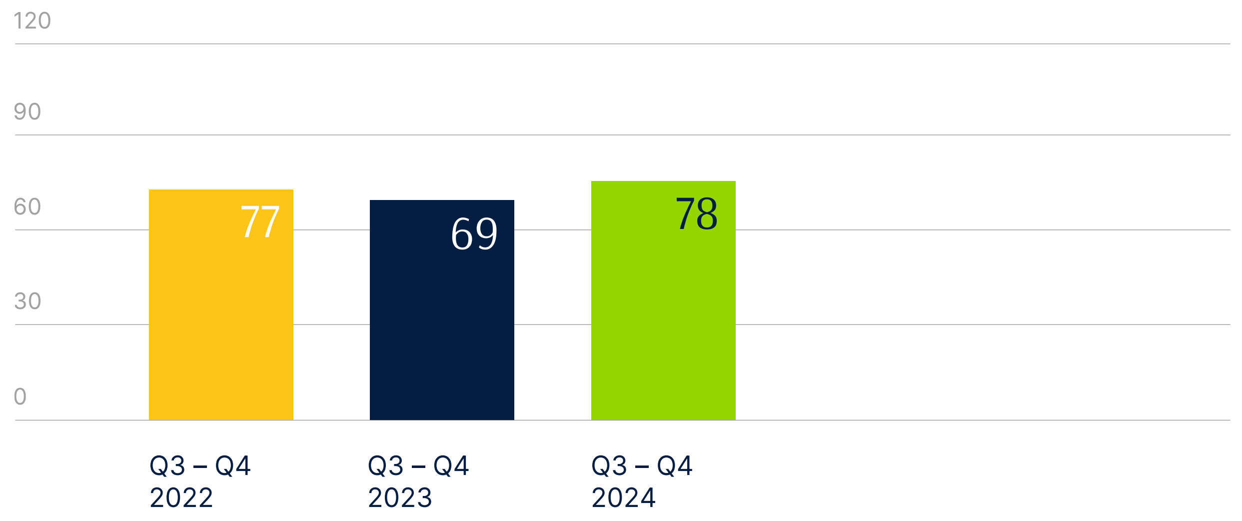
TOP global transactions in 2024

- Mars and Kellanova 36 billion dollars (food industry)
- ConocoPhilips and Burlington Resources 35.6 billion dollars (energy)
- Capital One Financial Corporation and Discover Financial Services 35.3 billion dollars (finance and insurance)
- Synopsis and Ansys 35 billion dollars (technology)
- Diamondback Energy and Endeavour Energy Partners 26 billion dollars (energy)
- ConocoPhilips and Marathon Oil 22.5 billion dollars (energy)
- Verizon and Frontier Communications 20 billion dollars (telecom)
- Home Depot and SRS Distribution 18.5 billion dollars (commerce)
- Adnoc and Covestro 16.4 billion dollars (chemical industry)
- Blackstone and Airtrunk 16.1 billion dollars (data centre)
- DSV and Schenker 15.8 billion dollars (logistics)
- Stone Point Capital and Clayton, Dubillier, Rice and Truist Financial Corporation 15.5 billion dollars (insurance)

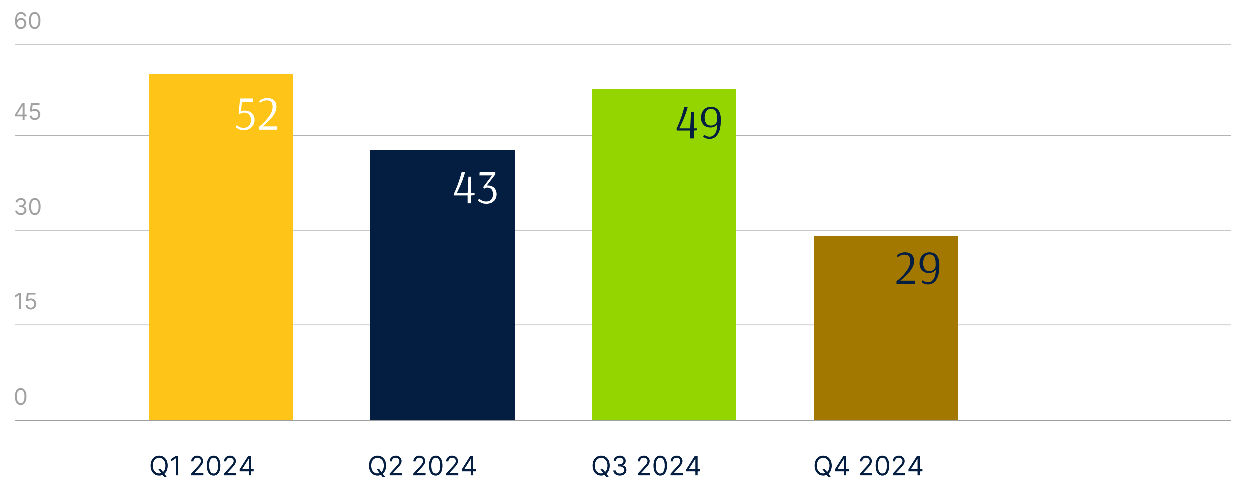
Total number of transactions (2022-2024)



II half-year total number of transactions (2022-2024)



Total number of transactions in last 4 quarters



Mergers and acquisitions in the technology sector - short review of 2024 and perspective for 2025

Rutt Värk, Counsel / Ellex in Estonia

Short review of 2024

Although there were less transactions in the technology sector in 2024 than expected, the top three global M&A transactions were the following:

- Cisco acquired Splunk for 28 billion dollars - the purpose of this transaction that was completed in March 2024 was to enhance Cisco's capacity in the AI assisted cyber security and data analytics field.

- Hewlett Packard Enterprise (HPE) acquired Juniper Networks for 14 billion dollars: the transaction announced in January 2024 focused on improving HPE's AI network capacity.

- IBM bought HashCorp for 6.4 billion dollars: the transaction in April 2024 was part of IBM's strategy to strengthen its cloud and AI automatisation services.

These transactions from the past year demonstrated the continued interest of tech giants in strategic acquisitions in this sector.

Short perspective of 2025

Considering that the revival of global economy often starts with the US, then spilling over to Europe and finally to the outskirts of Europe - the Baltics, it is interesting to see what the Donald Trump administration taking office in January 2025 will bring for the technology sector and transaction market. The Trump administration could focus on reducing regulations to improve the revival of the business environment. Tech giants, such as Meta and Amazon, have already started communicating with the Trump administration, in hopes of easing current regulations. This could encourage investments in the technology and innovation sector but likewise, some of Trump's policies, such as import tariffs, could create challenges.

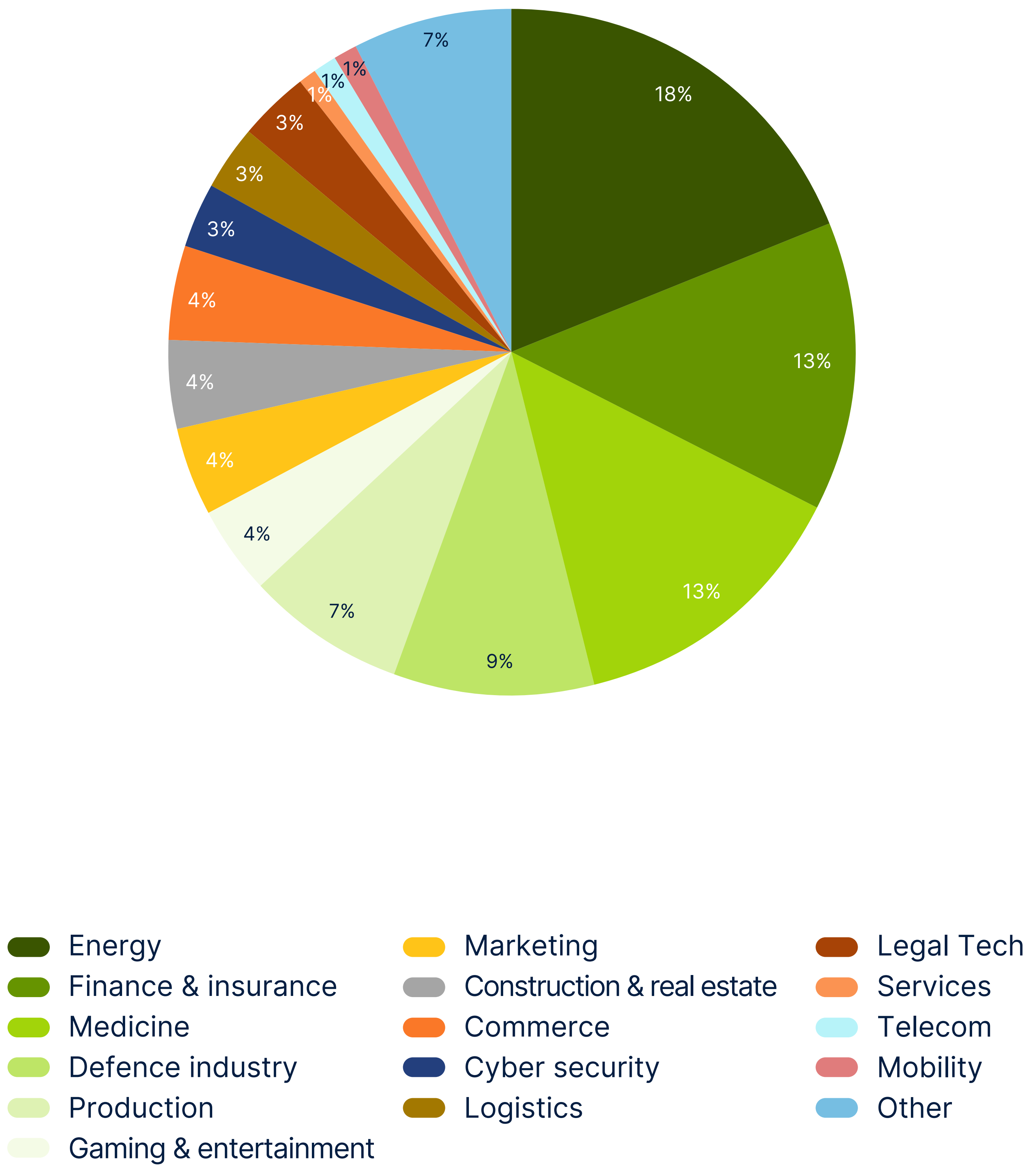
It seems that the keywords in Europe will still be AI, sustainability and digital transition. AI technologies continue their rapid development and widespread use. The European Central Bank is organising a conference in 2025 to discuss the possible economic effects and challenges of AI. The European Union Green Deal and Corporate Sustainability Reporting Directive (CSRD) affect companies, leading them to invest in sustainable solutions. This may include investments in renewable energy, energy efficiency and development of green technologies. The triumph of digital transition is also expected to continue, with companies and governments continuing the introduction of digital solutions to improve efficiency and provide better services. This includes the digitalisation of the public sector as well as private investments in new technologies.

We look forward to seeing which developments the above brings to the technology sector transactions in the coming year on a global level and in Estonia.

Noteworthy venture capital transactions in Estonia:

- Starship – 90 million dollars raised
- Tuum – 25 million dollars raised
- Botguard - cybersecurity transactions as a trend, 12 million euros raised
- Elcogen – 30 million dollars raised
- Stargate Hydrogen – 42 million dollars raised
- Pactum AI – AI based autonomous negotiation platform, 20 million dollars raised
- E-agronom – 10 million euros raised
- Modash – marketing platform for influencers, 11 million euros raised
- Sunly – renewable energy producer, 60 million euros raised

2024 venture capital transactions (%)



Tax authority's guidelines for the taxation of the debt push down structure are on its way

Dmitri Rozenblat, Counsel / Ellex in Estonia

The tax aspects of the debt push down financing structure have remained at the centre of attention for transaction and tax counsels also in 2024. Although the Tax and Customs Board has not yet published its final guidelines on debt push down, the target groups have been given access to the preliminary version of the guidelines, which according to the tax authority will not undergo any more fundamental changes. The guidelines are expected to be published at the beginning of 2025. As there have been certain amendments compared to the previous versions of the guidelines, it is relevant to provide a short overview of the tax authority's approach to the financing structures.

Prequel to the debt push down guidelines

The debt push down financing structure is a structure widely used in M&A transactions, where the acquisition loan is given to holding company founded for this purpose and which after the acquisition transaction merges with the target company Whereas the loan transfers to the target company which will also continue to service the loan from the cash flow generated from its business activity. Although the structure provides considerable flexibility in financing, the Tax and Customs Board has deemed it problematic in terms of taxation.

Years ago the financing structure was not seen as problematic and the tax authority had even given a binding preliminary decision in which it considered the structure sufficient for economic justification if the use of the structure (merging the holding and target company) arises from the requirement of the financer of the transaction.

About 10 years ago the Tax and Customs Board adopted a more critical view of the debt push down structure, which resulted in the removal of the previous positive preliminary decision from its website and giving negative answers to the new inquiries of market participants. However, due to a lack of actual tax proceedings, the market participants continued to use the debt push down structure.

A serious breakthrough occurred in 2023 when the tax authority revealed the project for guidelines on debt push down structures and taxation and held several roundtables on the guidelines with the stakeholders (banks, funds, tax consultants etc.).

In the first version of the guidelines, the debt push down structure was subject to income tax (as expenses not related to business) in full and essentially without any exceptions, provoking serious objections among the market participants. In addition to the questionable legal approach in the guidelines, it received a lot of criticism for its negative effect on the Estonia M&A market and investment climate in general.

Based on the feedback, the tax authority amended the legal basis of taxation in the draft guidelines and enabled to take into account the income tax paid on the loan servicing payments in future profit distributions. The guidelines, now much more lenient, also mentioned the tax authority waiving the taxation of past transactions, i.e. transactions preceding the publication of the guidelines.

Final version of the debt push down guidelines

The final version of the guidelines which was announced to the stakeholders in autumn 2024 and which is likely to be published as the final guidelines, once again contain several amendments compared to the previous versions.

The most important change is the tax authority's waiver of the automatic taxation of the debt push down structures. Instead, the guidelines set out a general principle of economic interpretation whereby the structure is subject to taxation only if it is aimed at gaining tax advantages and there are no other economic reasons for its use. As such, the guidelines are definitely more aligned with the Estonian tax law and the case law of the European Union Court of Justice.

Since the tax authority sees hidden distribution of profit as the potential abuse of the structure, the tax payer can take into account the income tax paid on the lean servicing later in the distribution of dividend.

The guidelines contain examples of situations when applying the structure might be tax neutral according to the tax authority, as well as a list of circumstances that could indicate abuse. A positive aspect is that the guidelines consider the use of the structure to be for business purposes if it is used by a person whose primary business activity is investing in companies, i.e. the acquisition and transfer of shareholdings. Therefore, the guidelines most likely will not apply to investment funds and companies.

Moreover, according to the guidelines, a business purpose is also justified if the requirement for the merger of the holding and target compony is imposed by the financer because it is necessary to secure the loan or comply with other requirements applicable to credit institutions. However, the financer's respective requirement might not suffice to prove the business purpose of the structure.

As a completely new aspect, the newest version of the guidelines introduces the possible taxation of the so-called equity push down structure, similarly to debt push down.

Equity push down differs from a debt push down in that instead of taking a loan, the buyer parent company makes a contribution to the holding company or converts share capital into a previously granted loan, whereas the other steps of the transaction, i.e. the merger and subsequent share capital distribution, are done similarly to a debt push down transaction. So for these share capital contributions that are considered as abusive, the tax authority could prohibit the declaration of the share capital contribution as a taxation right and thereby exclude share-capital distributions from being exempt from tax in the future.

As the new version of the guidelines does not result in the automatic taxation of the debt push down and equity push down structures, leaving some flexibility, the tax authority has not considered it reasoned to exempt past transactions from the scope of the guidelines and this principle has been left out from the guidelines.

Future perspectives

Regardless of the fact that the debt push down guidelines are considerably more flexible compared to its first versions, market participants should be careful when applying loan and equity financing structures. Before applying the debt push down or equity push down structure, the perspective of its economic justification must be carefully analysed and, if possible, alternative transaction structures deliberated.

Strange year for the public securities market

Gerli Kivisoo, Partner / Ellex in Estonia

2024 was a strange year for the public securities market, not particularly bad but not good either. Quite a few transactions were put on hold in wait of better times, while some were abandoned. But there were a few interesting events. The securities market follows the general trends - the statistics for the 2024 III quarter from the Bank of Estonia show a negative economic growth of 0.7%, the annual price increase being 3.7%. Not the worst case scenario. Still, it is not uncommon to hear news of cutbacks, redundancies, reorganisations and bankruptcies. At the same time, the volume of home loans is increasing again, you cannot get a table at a restaurant without a booking on a Friday or Saturday night and theatre tickets sell out in minutes. A strange year – there is and there isn't..

There were no public offerings of shares in Estonia this year, Nasdaq Tallinn Stock Exchange did not welcome any new issuers either. In Latvia, though, there were three public offerings of shares, two of these (DelfinGroup and Eleving Group) on the main list and one on the alternative First North market (Kalve Coffee). Although the DelfinGroup public offer missed full subscription by a close margin, all three transactions could still be considered a success. But the long-awaited IPO of AirBaltic was postponed. In summary, the year 2024 gave strong results for Latvia, who has until now always fallen behind Estonia. How come? Hard to explain. Strange year.

Optimists are calling 2024 the year of bonds. And it is true - the main instrument offered on all three Baltic public markets was the bond and for understandable reasons - the interest rates are favourable for the bond market. This included two transactions that are worth highlighting - the public offer of the green bonds of Liven and Eesti Energia's hybrid bond issue.

Liven's bonds are made green by the use of the raised capital - for environmental projects. This is the first public green bond in the Baltic region. The offer, which was oversubscribed by more than 3.6 times, definitely included investors who made their decision based on the green colour of the bonds, while it also included those who valued the 10.5% interest rate the bonds offer.

The hybrid bond issue of Eesti Energia, which was internationally recognised by the Global Banking and Markets, is remarkable for several reasons - first, this is probably the first hybrid bond issued by an Estonian issuer; second, it is probably the largest international transaction in Estonia in 2024, being worth 400 million euros; and third, this bond is also green, meaning that the issuer is taking a responsibility to the investors to invest the raised capital only into environmentally friendly projects. A hybrid bond means that the bond terms are designed to include features that are characteristic of equity as well as loan instruments. A fine balance between these properties enables to consider a bond as equity for accounting purposes. This transaction was also a great success - investors were willing to buy the bonds 4 times more than offered, i.e. for 1.6 billion euros. The green colour of the bonds undoubtedly played a part in this transaction because nearly 200 investment funds around the world subscribed for the bonds.

Regardless of the above success stories, the Baltic securities market is still affected by the geopolitical situation and the uncertainty brought on in the entire region by the full-scale war in Ukraine. Its direct tangible impact is the reduced volume of foreign investments and many current foreign investors looking to exit.

It is where Infortar, which successfully made its stock market debut last year, saw its opportunity. This summer, Infortar made a voluntary takeover bid to all Tallink's shareholders for the acquisition of all the shares of Tallink. Regardless of the offered price, which was below the stock price, 21.7% of Tallink shares changed owners, meaning that the value of the transaction was a remarkable 88 million euros. This is great news for Infortar's shareholders because as a result of this transaction, Tallink became a subsidiary of Infortar because Infortar's shareholding in Tallink increased from 46.76% to 68.47%.

It was also interesting to follow the public communication and discussions around the Infortar-Tallink transaction. These enabled to conclude that there is still room for improvement in investor awareness - regardless of the explanations of the bidder and published documentation, the dominating opinion was as if the offered price that was less than the stock market price was not legal. This means that the public does not quite understand the difference between a voluntary and compulsory takeover and how the price can be determined in each case. It is understandable because there have only been so many takeover bids on the Estonian securities market. Hopefully this transaction helped to make it clear to the public that the price of a voluntary takeover bid can be set by the bidder as they see fit. Setting the price is legally regulated only in case of a compulsory takeover bid which takes place when dominant influence is gained over the target issuer.

In summary, the year was strange but it is good to note that the public securities market developed - there were new instruments, market awareness improved. But it would be nice to see more transactions in 2025 and welcome new issuers, to witness a general revival of the market. The Bank of Estonia predicts a 1.6% economic growth for 2025. Reason to hope.

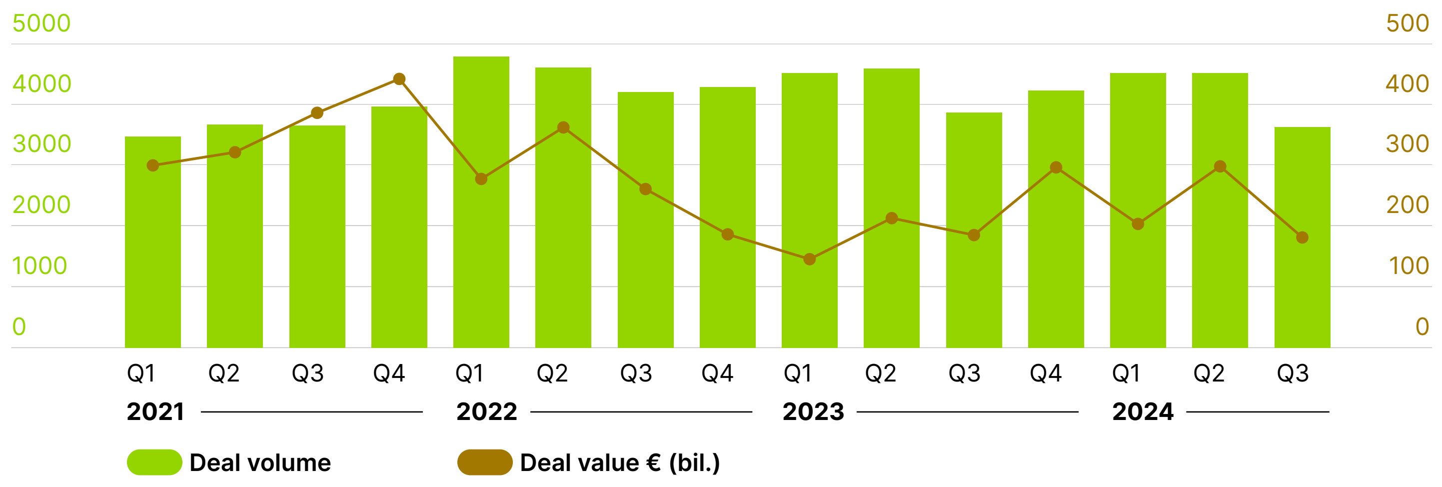
2024 transaction year

Sven Papp, Partner and Co-Head of M&A / Ellex in Estonia

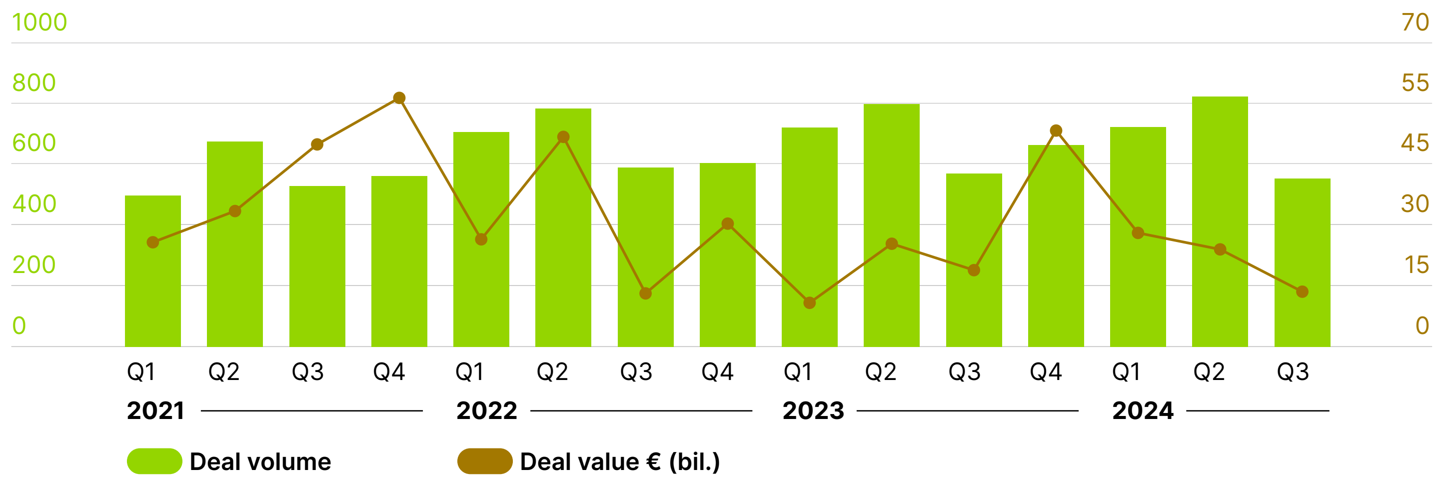
When reviewing the year 2023, we were forced to admit that it was not a good year for transactions and a fond memory of 2021 as the best transaction year so far in Estonia and the world became even more distant history. The global transaction value in 2023 was about 2.7 trillion dollars, which was 26% less than in 2022 and the smallest since 2013.

With this as the starting point, there could be no other hope than for things to get better in 2024. This seemed to be the case in the first half of the year - transaction activity remained on the 2023 level or even slightly better. Unfortunately, this all changed in the second half of 2024 and today we are back at the 2022 level with transactions - here are a few graphics from Mergermarket to illustrate.

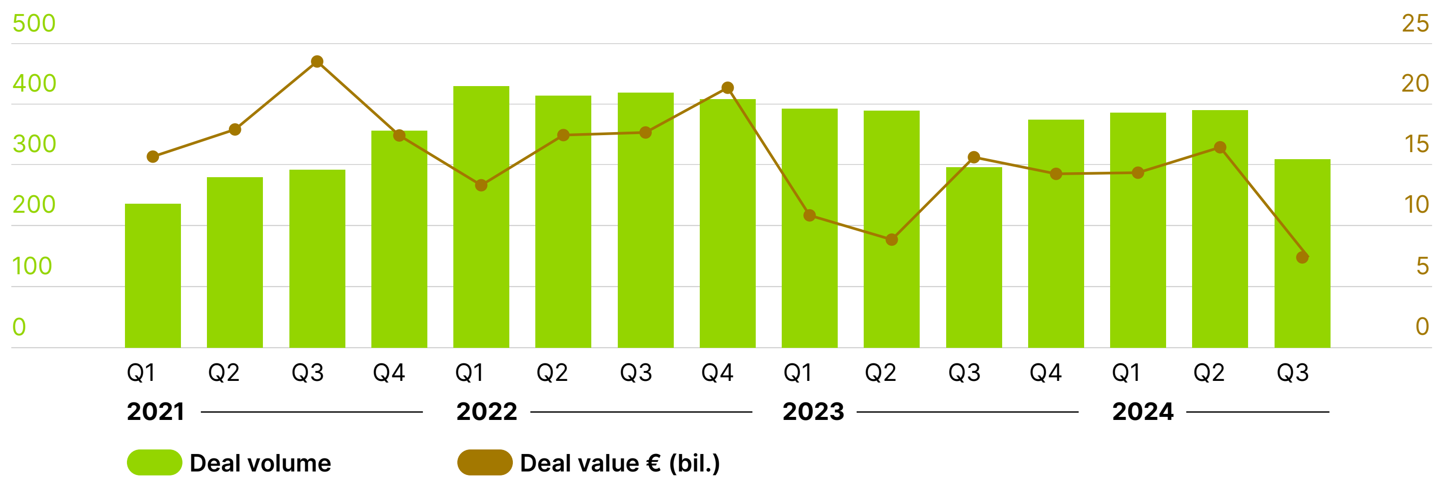
EMEA M&A activity, 2021-Q3 2024



Nordics M&A activity, 2021-Q3 2024



CEE & SEE M&A activity, 2021-Q3 2024



What happened?

The European Central Bank made us happier with lowering interest rates (from 3.5% to 25%) but the average economic growth in the eurozone remained very modest (merely 0.8%). Inflation was brought under control but it remained relatively high (the core inflation of the eurozone remained at 2.7%). Estonia must also admit economic recession even though inflation and interest rates are under control. Consumer confidence remains weak and the upcoming tax increases do not make it stronger this year. Export growth is reported from time to time but this could be only a statistical ripple rather than a steady trend. In summary, it can be said that Estonian economy and transaction markets have continued to suffer in 2024 due to high interest rates and modest internal demand but also due to the weakness of its main export markets.

It is true that Estonian economy has been sluggish this year and so has the 2024 transaction market. Of course it is always possible to rejoice that transactions have not completely disappeared. In fact, there are examples of transactions in very different sectors. Transaction activity has been predictably high in the technology and real estate sectors.

2024 trends

Foreign capital interest in Estonia remained small and this opened up many possibilities for local capital which it also took advantage of. For example, the acquisition of the Kristiine Keskus shopping centre from Citycon or the buy-out of Technopolis by Mainor Ülemiste as well as the buyout of Trev 2 from the Vinci group by the Trev 2 management.

An important keyword is definitely investments in the defence industry, where Frankenburg Technologies is perhaps the hottest topic.

We advise on matters concerning public and private sector merger and acquisitions

Read about our services and team on our website and feel free to contact risto.vahimets@ellex.legal, +372 515 0949.

Baltic circle of legal excellence

Risto Vahimets

Partner, Head of M&A

Ellex in Estonia

Sven Papp

Partner, Co-Head of M&A

Ellex in Estonia

Dmitri Rozenblat

Counsel

Ellex in Estonia

Rutt Värk

Counsel

Ellex in Estonia

Gerli Kivisoo

Partner

Ellex in Estonia

ellex.legal
Experience success

Ellex Raidla Advokaadibüroo OÜ
Reg. code 10344152
VAT EE100101799
Ahtri 4, Tallinn

Ellex