Ellex

BALTIC M&A MONITOR 2019

Mergermarket
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CONTENTS

Foreword	3
M&A Overview	4
Sector Watch	8
Baltic Outlook	15
About Ellex	17
About Ellex M&A Team	18
About Mergermarket	19

FOREWORD

Welcome to the 2019 edition of the Baltic M&A Monitor, a comprehensive review of M&A activity in the Baltic region that is published by Ellex, in association with Mergermarket. The report closely examines M&A trends in the three Baltic countries – Estonia, Latvia and Lithuania – including country- and sector-specific insights, and forecasts for the year ahead.

Despite an uncertain international environment, 2018 proved a record year for dealmaking in the region. US-based private equity (PE) fund Blackstone rocked the market with its acquisition of a majority stake in Baltic bank Luminor. This was not only one of the largest transactions on record in the region, but the biggest PE majority-stake investment in a universal bank anywhere in the world over the past decade – a remarkable achievement for a relatively small market. The region is already on the international M&A map, with corporates and funds from Scandinavia particularly active, and the geographical range of investors is on the increase. The Blackstone deal is indicative of rising interest from the US, and investors from China and the UK have featured among the higher value deals in recent years.

Moreover, deals have been spread over a number of industries – although one sector was particularly strong. Technology, media and telecommunications (TMT) saw more deals than any other in 2017-18, reflecting the region's technological prowess. Internationally-recognised names such as Skype, TransferWise and Taxify have Baltic roots, and the supportive environment continues to produce outstanding tech businesses. Excellent technical education and a supportive environment backed by tech-savvy governments have made the Baltics a hotspot for global tech development. International companies are coming to the region to gain outstanding intellectual property.

Support for innovation and a highly-skilled workforce have also benefitted the industrial sector, where companies such as Latvia's GroGlass – acquired by a UK-based PE fund in 2018 – have become world leaders in extremely specialised areas. In the financial services industry, the Luminor deal involved a merged regional bank, highlighting a process of consolidation that has been ongoing in the region for some years, thanks to commercial and regulatory changes. The costs of technology and capital requirements are pushing M&A across the financial sector. Locally, scandals at one small bank and one larger one are already leading to tighter regulation – and this is resulting in divestment of assets.

A mix of government and private initiatives has also seen lively activity in the energy, mining and utilities (EMU) sector, as the three countries have looked to diversify their energy sources, leading to the growth of renewables, as well as regional transit networks and import infrastructure. While Latvia's tightening of regulation on RES has caused some cooling in investor sentiment, regionally the market is lively.

In the PE arena, the Blackstone buyout of Luminor was the most prominent PE investment in the region in 2018, but was one of many PE-driven deals. While the size of the Baltic markets might be thought to limit targets, in fact the growth of high-quality, knowledge-intensive local companies with international reach has created a conducive environment for PE. US funds have become more active, while there is a growing range of regionally-focused PE outfits. Indeed, 2018 saw a wave of exits, a sign of the market's maturity.

We hope you enjoy reading this report, and, as always, welcome your feedback.

M&A OVERVIEW

This was the year that M&A in the Baltic States came into its own. Record value and volume has put the region firmly on the dealmaking map

The Baltic states – Estonia, Latvia and Lithuania – completed a record year for M&A activity in 2018. There were 74 registered deals, up 43% year on year. Meanwhile, total value skyrocketed 320% year on year to just over €2.7bn[1].

Estonia established

Estonia came out top in overall deal volume, accounting for 43% of all transactions. It is ranked as one of the world's most open economies, and its tech sector in particular has made waves internationally since independence.

The country saw a record year for transaction value, with just over €2bn-worth of deals, while deal volume was the second highest on record, at 32. Estonia accounted for seven of the top ten deals, including the single largest transaction, the €1bn acquisition of a 60% stake in banking company Luminor Group by US-based PE fund Blackstone Group.

Lithuania deal count doubles

Just over a third (34%) of deals were in Lithuania, the largest economy of the three, which saw an above-average year in deal volume, with 25 transactions – more than double last year's total of 12. Few players publically declared the value of their deals, however, meaning that it is hard to judge overall performance.

Latvia on the rise

Latvia accounted for 23% of Baltic deals, but deal value soared to a total of €394m, second only to the country's record of €426m, achieved in 2015. Volume remained strong, with 17 transactions, the highest since 2013.

Estonia welcomes investment

"Estonia has had a very stable economy and has been very resilient in the difficult years – the state budget has been balanced with no deficit. Estonia has a remarkably advanced IT sector and we are famous for different electronic solutions that are widely in use, including the fact that communication with the authorities is close to 100% digitalised and electronic. The level of corruption is very low. Recently, Transparency International published the results of its Corruption Perceptions Index (CPI) for 2018, according to which Estonia, at 73 points, come 18th together with Ireland and Japan, having advanced three places compared with last year."

Sven Papp, partner, Ellex in Estonia

M&A sector success in Lithuania

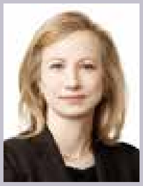
"There are a number of strong sectors and subsectors in the Lithuanian M&A market. Fintech is extremely active – indeed, according to certain sources, Lithuania is in second place in the whole of Europe for attracting fintechs. There are a variety of reasons why Lithuania is so successful in this field but, primarily, it is because of its very flexible legal environment. However, it's not just fintech: we've seen a lot of diverse deals going on in Lithuania. Overall, energy and renewables, especially, infrastructure and technology will be major growth areas in the Lithuanian M&A market."

Paulius Gruodis, partner, Ellex in Lithuania

[1] Mergermarket only registers deals with a minimum deal value of €5m. This report only includes deals where the dominant target country is listed in one of the Baltic countries.

Baltic M&A, 2008-2018

Taxing times in Latvia



"The Latvian government completely overhauled the corporate tax system last year, so profits are no longer taxed until distributions are made. It is too early still to evaluate what impact it will have on the economy, but the aim is that it will encourage companies to invest in growth and add value, hopefully resulting in more quality targets."

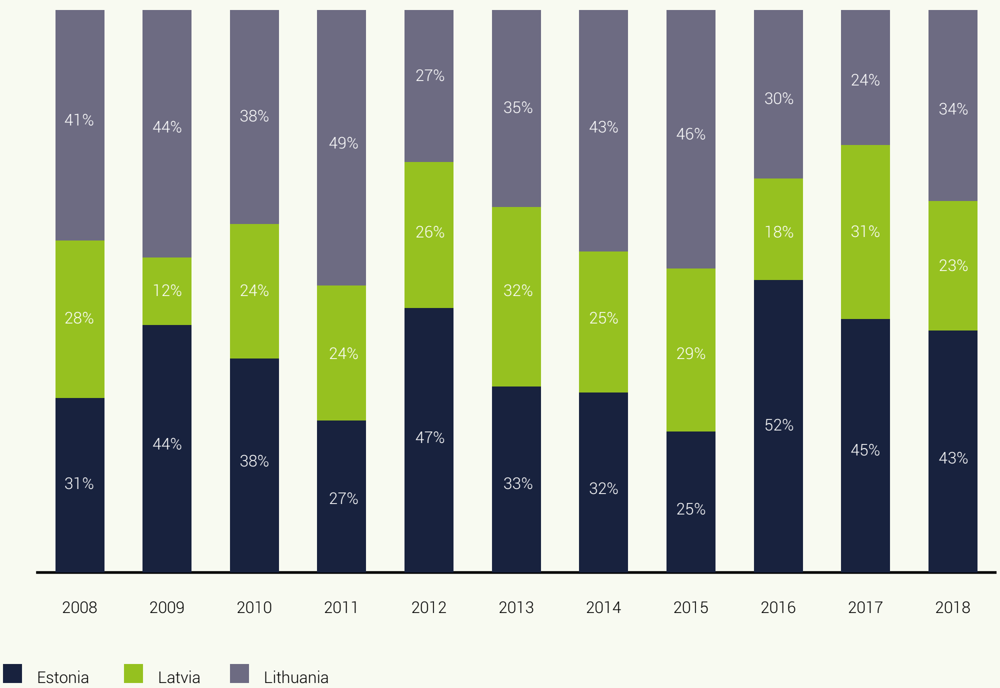
Zinta Jansons, partner, head of tax practice, Ellex in Latvia

Inbound expansion

The Baltic region has seen growing interest from international investors in recent years. In 2018, 55% of deals were inbound, a similar level to 2017 (59%). In contrast to previous years, inbound M&A now comprises well over half of all total deal volume – back in 2012, only 37% of deals were from abroad. As well as the region's competitive advantages as an investment destination, this also reflects a significant number of international transactions with Baltic components.

International and domestic PE funds have become increasingly active in the region, and several of the biggest deals involved PE entries. The trend looks set to continue in 2019, with technology and manufacturing among the sectors attracting particular PE interest.

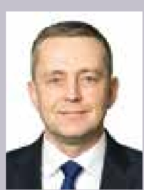
Baltic deal volume by country



However, despite the strong showing last year, 2019 may come with a health warning. There are global headwinds including Brexit, uncertainty around the eurozone and trade tensions between the US and China, which could affect M&A in all regions.

The approaching end of the current economic cycle, which has lifted the European economy from a period of sluggishness, could lead to slower growth in the Baltics in 2019 and 2020. The European Commission expects Estonia's GDP growth to slow from 3.5% in 2018 to 2.8% in 2019 and 2.6% in 2020. In Latvia, an impressive 4.1% growth in 2018 is forecast to slow to 3.2% and then 2.9%, and in Lithuania, the EC expects a cooling from 3.4% to 2.8% and 2.5%.

Inbound and outbound strength



"A good number of Baltic companies have gained in size, allowing them to make regional or even Europe-wide acquisitions themselves (Harju Elekter, Tahe Outdoors). And to complete the internationalisation and globalisation scene, Baltic companies are drawing interest and investments from global leaders (Daimler, Blackstone) and far-flung players (Didi, Hangxin)."

Risto Vahimets, partner in corporate/M&A practice, Ellex in Estonia

Merger control in the Baltics

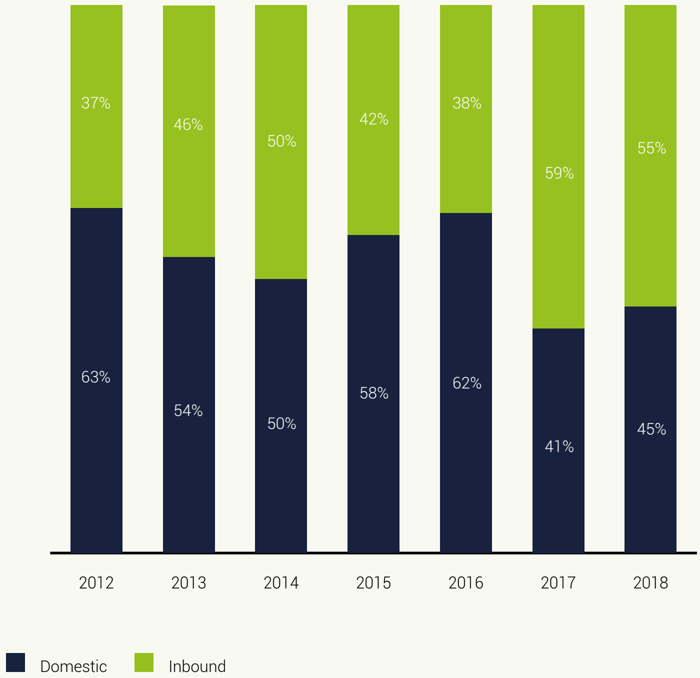
"Merger control is becoming more and more important for many transactions in the Baltics. Given the size of our jurisdictions, many markets tend to be rather concentrated, with a few players only, and further consolidation can be a major issue. The competition authorities are struggling to find the right balance – preserving enough competitors and thus the variety of choice for consumers in a small market vs lower prices that only sufficiently large players can provide in many cases. Investigations of mergers have become more sophisticated, and companies need to allow sufficient resources for both a feasibility study before proceeding with an acquisition and the actual filing process to secure a favourable outcome."

Liga Merwin, managing partner, head of EU & competition practice, Ellex in Latvia

"In a year of definite M&A boom, the Competition Authority rolled out water cannons to lower the temperature in the room. When already 2017 saw a stricter line, then in 2018 the market experienced a step even further. A stricter environment demonstrates the need to keep simple truths in mind: (i) Before going down the rocky road of M&A negotiations, consider what is the situation in the relevant sector and is there enough data to make the case; (ii) Consider what is needed to maintain the value of the target during the potential prolonged wait; and (iii) Consider what will your competitors do and local business media write. In any case – until the music plays you got to get up and dance."

Martin Mäesalu, lead senior associate in EU & competition practice, Ellex in Estonia

Inbound vs domestic M&A volume



However, despite the unsettled global picture, there are still reasons to be upbeat about the M&A outlook for the Baltic states. The strength of assets coming onto the market in the Baltics will continue to attract both domestic foreign strategics and sponsors. And, at the moment, Estonia, Latvia and Lithuania are among the most competitive economies in Europe in terms of skills, regulation, taxation and cost.

SECTOR WATCH

The breadth and diversity of deals highlight the strength of the Baltic M&A market – but, as usual, some sectors fared better than others

In the bumper year for M&A in the Baltic countries in 2018, US PE fund Blackstone's acquisition of a majority stake in regional bank Luminor was the standout deal. It not only highlighted the overall strength of companies in the region and investor confidence in their future, but also reflected ongoing consolidation in the regional financial sector.

Meanwhile, the technology sector remains vibrant – especially in terms of volume – with German-based consortium Capital SAS's acquisition of Estonia's Uber-challenger Taxify the top deal among a raft of transactions. The EMU sector also proved buoyant, with three deals in the top 10.

Technology, media and telecommunications

The TMT sector continues to be a major driver of dealmaking activity in the region. In 2017-18, TMT accounted for 17% of all deals by volume, more than any other industry. Many of these deals were relatively small, however, and the sector made up just 8% of overall value, down from 25% in 2015-16.

Major deals included a consortium led by Germany's Daimler purchasing an undisclosed stake in Estonia-based taxi app developer Taxify for €151m. Daimler is already an investor in a range of online taxi services around the world, while Taxify has emerged as a major rival to global market leader Uber. It has taken market share from Uber in a range of cities across CEE and Africa, and has 10m customers in 25 locations worldwide. Other consortium members include venture capital fund Korelya Capital and Taavet Hinrikus, the Estonian co-founder of online money transfer service TransferWise – another one of Estonia's tech success stories.

"The technology sector in general has been traditionally doing very well and 2018 was no exception," says Sven Papp, partner at Ellex in Estonia. The Estonian tech sector has been attracting lively investor attention since VOIP service Skype was launched by Estonian developers in 2003. The regional tech sector benefits from the Baltic states' long tradition of excellent technical education, as well as government efforts to create a conducive environment for growth and investment. Estonia has a globally-recognised e-residency programme that allows non-citizens to access Estonian services, including company formation, banking and payment processing, all of which are digitised.

The other two countries in the region are not far behind. Ieva Dosinaite, partner and head of finance at Ellex in Lithuania, says that Lithuania ranks among the top countries in Europe for attracting fintech investment.

"Last year showed the first results of the hard work by the Bank of Lithuania (BoL) in seeking to become a fintech hub in CEE," she says. "The BoL's main aim and strategic goal remains the same but, as of 2019, the Bank is becoming more selective in terms of investors. The BoL will apply stronger criteria to investors and will only issue licences to those who give significant benefit to the state of Lithuania in terms of reputation (e.g. Revolut, Google) or investments (e.g. sufficient economic impact in terms of expanding current market incumbents or creating jobs). Lithuania is looking to be ranked with Ireland or Luxembourg in respect of the financial sector."

Meanwhile, Latvia saw a number of significant undisclosed deals in the TMT sector. Israeli insurance software company Sapiens International Corporation acquired SIA knowledgeprice.com, a Latvia-based developer and designer of interfaces and apps for insurance distribution. It is testament to the strength of Latvia's tech industry that a large global company such as Nasdaq-listed Sapiens saw an acquisition in the country as a way to "expand its resources and knowledge base".

The telecoms segment has also seen consolidation over recent years as incumbent companies – particularly from Scandinavia – look to acquire smaller counterparts and service providers, while the media sector has been affected by global transactions including Baltic assets.

Top 10 deals in 2018

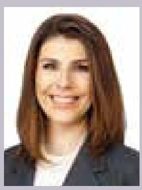
Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Seller company	Seller country	Deal value €(m)
13/09/2018	Luminor Group AB (60% Stake)	Financial services	Estonia	Blackstone Group LP	USA	DNB ASA; Nordea AB	Sweden	1,000
29/05/2018	Nelja Energia AS	EMU	Estonia	Enefit Green AS	Estonia	Vardar AS; Martin Kruus (private investor); Kalle Kiigske (private investor)	Norway	493
13/11/2018	RUDA, SIA; Bergvik Skog SIA	Agriculture	Latvia	Sodra AB	Sweden	Bergvik Skog AB	Sweden	324
28/11/2018	Utilitas Energy Group (85% Stake)	EMU	Estonia	First State Investments (UK) Limited	United Kingdom	-	-	320
19/03/2018	Olympic Entertainment Group AS	Leisure	Estonia	Novalpina Capital LLP	United Kingdom	-	-	230
30/05/2018	Taxify OU	TMT	Estonia	Daimler AG; Taavet Hinrikus (Private investor); Didi Chuxing Technology Co., Ltd.; Korelya Capital SAS	Germany	-	-	151
17/04/2018	Sia Vika Wood; Continental Wood Products Limited; Sia Byko-Lat; LAESTI AS; EWP AS	Agriculture	Latvia	Bergs Timber AB	Sweden	Norvik hf	Iceland	70
03/01/2018	Magnetic MRO AS	Industrials & chemicals	Estonia	Guangzhou Hangxin Aviation Technology Co., Ltd.	China	An investor group led by BaltCap	Estonia	43
25/06/2018	Bauhof Group AS	Consumer	Estonia	Ermitazas UAB	Lithuania	MyInvest Estonia OU	Estonia	35
10/08/2018	Vejo gusis UAB; Vejo vatas UAB	EMU	Lithuania	Lietuvos Energija, UAB	Lithuania	-	-	22

Financial services

The financial services sector accounted for 6% of overall deal volume in the period 2017-18, down from 11% in 2015-16. However, total value rose from 7% in 2015-16 to 30% in the past two years, buoyed by the Blackstone/Luminor deal.

Luminor is a banking group with activities in all three Baltic countries, created by a 2017 merger of regional assets by Danish bank Nordea and Norwegian counterpart DNB. It is the third largest financial services provider in the region, with a 23% lending market share, and €15bn of assets. Nordea and DNB, the sellers, will each retain a 20% stake in Luminor, though Nordea has a forward agreement with Blackstone for the future sale of its share

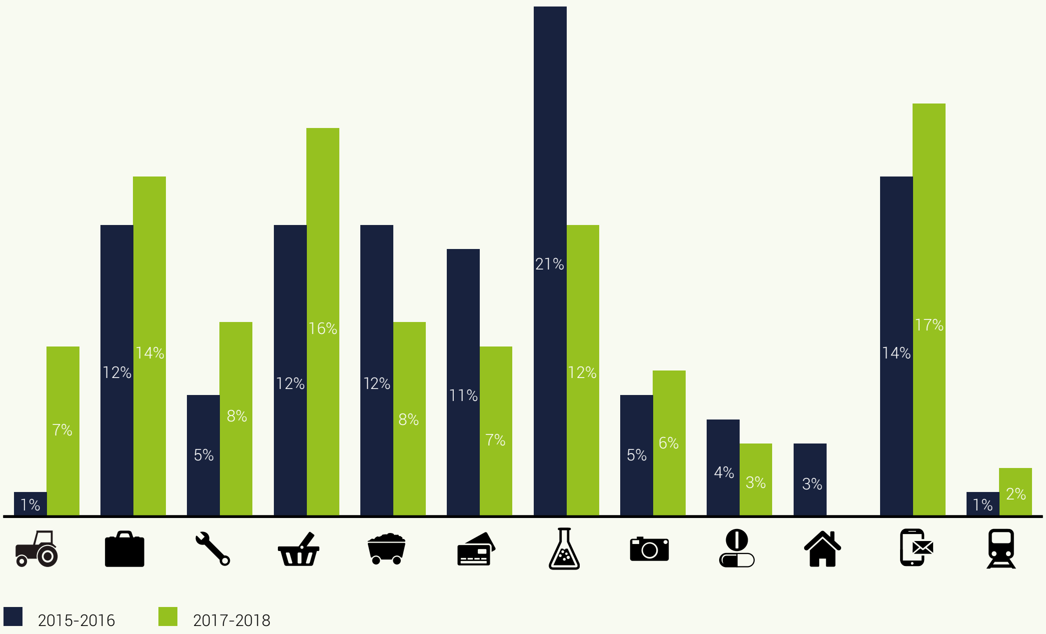
The Brexit effect



"The impact of Brexit is already being seen in Lithuania. A number of UK-based financial institutions have requested information about the legal requirements to continue business in Lithuania after Brexit. Secondly, clients are engaging us to establish subsidiaries that will be licensed in Lithuania and have the right to enter the EU market. A number of UK financial institutions have applied for licences in Lithuania. The most important task for Lithuania is to maintain a balance between the open market and sufficient safety requirements to avoid risks to both the Lithuanian and EU financial system."

Ieva Dosinaite, partner and head of finance, Ellex in Lithuania

Baltic M&A volume by sector



Sector key:

Agriculture

Business services

Construction

Consumer

EMU

Financial services

Industrial & chemicals

Leisure

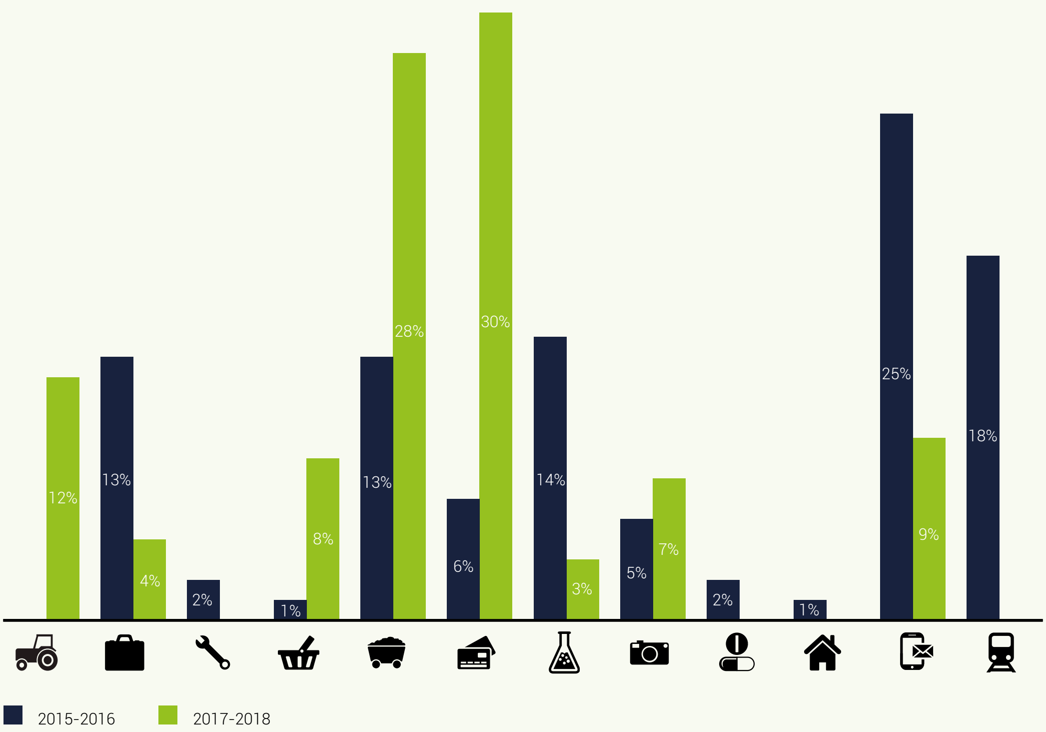
Pharma, medical & biotech

Real estate

TMT

Transportation

Baltic M&A deal value by sector



to the US fund. The deal is one of the biggest transactions ever in the Baltics, and according to Luminor will allow the bank to expand its provision of "next-generation" services. It is expected that Blackstone will eventually exit Luminor via an IPO.

"The Luminor deal is good for the Baltic banking sector," says Raimonds Slaidins, partner at Ellex in Latvia. "It brings American investment into a sector that has been dominated by Scandinavian banks. It adds dynamism to the Baltic banking market."

Another significant deal saw Vienna Insurance Group acquire Estonia-based regional insurer Seesam Insurance from Finnish financial services company OP Financial Group for €74m. Vienna Insurance Group is the market leader in CEE and has been on a round of acquisitions in recent years as the global insurance sector has undergone consolidation. The deal was signed in late 2017 but finalised in 2018 following approval by competition and financial supervision authorities.

Macro-regional consolidation has been a key driver of M&A in the financial industry in the Baltics in recent years, with competition, costs and regulatory pressure factors behind the trend.

The sector has also been affected by money-laundering scandals at specific banks. While these do not point towards a systemic problem, the clear-ups may trigger further consolidation in the medium term, and regulatory changes that will have an impact on the market. Authorities in Estonia, Denmark, the UK and the US are investigating alleged money-laundering through payments totalling €200m at the Estonian branch of Denmark's Danske Bank. In December 2018, the Estonian authorities arrested ten former employees of the local subsidiary of Danske Bank as the investigation moved forward. The scandal has caused investors including US investment giant BlackRock to reduce their holdings in Danske. Latvia's third largest bank, ABLV, collapsed in February 2018 amid a money-laundering scandal. At the time of writing, it was undergoing a voluntary liquidation process. The bank's wind-down is leading to a sale of some of its assets, including overseas subsidiaries.

These developments have led Baltic countries – among others – to tighten their regulation of the banking sector. "The whole money-laundering clampdown and enforcement is very notable in Latvia at this point; there's a real emphasis on it," says Slaidins. "And in that regard, that may have some effect on M&A activity."

Energy, mining and utilities

While the Baltic states are not particularly rich in natural resources, the EMU sector has nonetheless been reasonably lively in recent years, thanks to efforts to diversify energy sources and restructuring in the utilities subsector. EMU accounted for 8% of M&A volume in 2017-18, down from 12% in 2015-16, but overall value increased significantly, from 13% to 28%.

The rise in value was driven by a number of sizeable deals, both inbound and domestic. The single biggest saw Estonian renewable energy company Enefit Green acquire domestic counterpart Nelja Energia from Norwegian electricity outfit Vardar and a range of private investors in a deal worth €493m. The agreement includes Enefit taking on Nejla's net debt of €204m.

In another renewables deal, Lithuania's national energy company Lietuvos Energija acquired Vejo Vatas and Vejo Gusis, which together operate three wind farms with capacity of 34MW, for €22m. Ellex advised Lietuvos Energija on the acquisition. Paulius Gruodis, partner at Ellex in Lithuania, says that energy infrastructure and renewables are "a continuous hotspot" for deals in Lithuania, and will continue to be a magnet for M&A in 2019.

In Latvia, the situation is more complex. For some years, the government has operated a generous system of subsidised tariffs for renewable energy companies, to encourage the development of the segment. This has helped the country become one of the EU's leaders in renewable sources, which meet more than a third of domestic energy demand.

However, the government has recently started a clampdown on compliance in the segment and cutting subsidies to companies found in breach of the rules. While this should, in theory, strengthen the competitive position of legitimate operators, the uncertainty has also cooled investor enthusiasm, says Slaidins.

However, this has not affected the sector as a whole. One of the biggest EMU deals of the year saw an infrastructure fund owned by Australian investment company First State Investments take an 85% stake in Estonian thermal energy and district heating company Utilitas for €320m. Utilitas was previously owned by Estonian businessman Kristjan Rahu, and has an increasing focus on renewable sources. In 2016, it opened Estonia's largest biomass cogeneration plant.

District heating is an attractive segment in the region, given the climate. In mid-2018, Estonia-based heating and energy company Adven Eesti acquired majority stakes in the Cesis and Valmiera district heating companies in Latvia for a deal Ellex understands was worth in the region of €10m-€20m. The acquisitions are Adven's first in Latvia, and part of the company's strategy of expanding in the Baltic and Nordic regions.

Consumer

The consumer sector in the region tends to see a significant number of smaller-value deals. In 2015-16, for example, it accounted for 11% of overall volume, but just 1% of total value. In 2017-18, this rose to 16% and 7%, respectively.

The sector benefits from relatively high purchasing power and growth that has generally exceeded the EU average, despite the relatively small size of the markets. Inflation has also remained fairly low, though it reached an estimated 3.5% in Estonia in 2018, according to the European Commission. All three countries are members of the eurozone, lowering currency risk for the many consumer companies reliant on imports.

The biggest reported deal of the year saw Lithuanian DIY retailer Ermitazas acquire Estonia's Bauhof Group, a retailer of construction and garden materials, for €35m. The seller was Estonian investment holding company MyInvest Estonia. Ermitazas is an arm of Lithuanian private holding company Vilniaus prekyba, which operates in retailing and real estate in the Baltic countries, Sweden, Poland and Bulgaria.

Bauhof is regarded as the market leader in Estonia and has 13 locations countrywide, while Ermitazas has nine stores in Lithuania. The acquisition is a consolidation play that should allow the merged company to strengthen its position in procurement, as well as expanding Ermitazas's product range, market reach and expertise.

International investors have shown lively interest in the Baltic consumer market over the past two decades, as income growth and demand for modern retail have strengthened. In 2018, inbound deals included the acquisition of the BMW distribution business of Lithuania's Inter Krasta by UK-listed automotive distributor Inchcape, and Poland's Marketing Investment Group, a footwear and clothing retailer, buying 11 stores in Lithuania and two in Latvia from Lithuanian sports retailer Bogvila.

While Chinese investment in the Baltics has not been as prominent as in other CEE countries, the consumer industry has been an exception – though partly with the investors hoping to use Baltic companies' product range and expertise to expand on the Chinese market, rather than in the region.

The sector does face downside risks, however. The relatively small and open economies of the Baltic countries leave them susceptible to changes in the European economy. For example, a renewed eurozone crisis or EU recession would have a significant negative impact. The three countries have also generally seen population shrinkage since independence. These are not markets that have the demographic upsides of emerging markets.

Industrials and chemicals

While all three Baltic economies are predominantly service-based, they retain a spine of industry, based both on historical legacy and the rapid development of technology and foreign direct investment over the past three decades. The industrials and chemicals sector has seen activity from smaller-scale deals in recent years. In 2017-18, it accounted for 12% of volume and 2% of total value, down from 21% and 14% in 2015-16.

The biggest deal in 2018 involved Latvia's GroGlass, one of the world's leading developers and manufacturers of anti-reflective and other technical coatings for glass and acrylic. GroGlass was acquired for an estimated €70m by UK-based PE fund Kartesia. GroGlass is indicative of the sort of high-tech, specialised manufacturing which has developed in the Baltic states. The company's unique equipment has allowed it to achieve sales compound annual growth rate (CAGR) of around 17% over the past five years, bringing revenues of €17m.

Another significant transaction saw Chinese aerospace maintenance company Guangzhou Hangxin Aviation Technology acquire Estonian counterpart Magnetic MRO for €43m. The seller was Estonian PE firm BaltCap. Magnetic has been looking for opportunities to expand in the Asian market to build on its recent development, which includes the 2016 acquisition of UK aeroplane interiors company, MAC Interiors, and investments in technology including virtual reality.

Meanwhile, French building materials company Consolis is awaiting a decision from the Estonian competition authorities on its acquisition of TMB Group, an Estonian producer of concrete elements. TMB operates across the Baltic regions and Finland, and achieved revenues of more than €120m in 2017.

The power of PE in the Baltics

"2018 was a record-breaking year for private equity M&A in the Baltics. One quarter of all M&A deals were done by PE investors. There has been a substantial increase in interest in the Baltics from international PE players, who have done many landmark deals. All local PE players remain very active as well, and in 2018 they had some of the highest return transactions in their history. This has not changed at the beginning of 2019 and we expect the PE boom to continue over the year. This has also resulted in a rapid increase in the valuation levels of the local targets."

Ermo Kosk, partner in corporate/M&A practice, Ellex in Estonia

Cycle of investments in PE sector

"Private equity activity is expected to be busy. The funds that started investing more than five years ago such as BaltCap and LitCapital are exiting their investments. At the same time, they have raised new funds for the new investments. So they will be busy both entering and exiting investments. For the market it is really important that the cycle of investment and exit is completed successfully. This would add much needed confidence of the investors into the private equity sector."

Robertas Ciocys, partner and head of M&A, private equity and corporate establishment team, Ellex in Lithuania

Private equity

PE is playing a growing role in M&A in the Baltic states as the regional markets mature. Over the past three decades, growing numbers of regional companies have developed to the extent that they are suitable targets for PE acquisition. High levels of technical expertise, in particular, have attracted the interest of buyout firms. Meanwhile, international PE has become increasingly ambitious in its search for new targets, and the boom in global liquidity in the past few years has left many with ample dry powder to seek acquisitions in emerging and frontier markets. The sophistication of the Baltic markets has also led to the emergence of regional PE funds.

It is significant that the biggest deal of 2018 by some margin was a PE takeover. Not only was Blackstone's acquisition of a 60% stake in Luminor one of the biggest deals ever in the Baltics, it was the largest majority acquisition anywhere in the world of a universal bank by PE in the last decade.

"This was a megadeal by Blackstone, and I think it changed the overall landscape of the Baltic M&A market," says Gruodis. "Though it is not the first PE fund coming into the region – we have been working with several already. US funds might trigger an increase in buyout activity in the future."

Baltic private equity, 2008-2018

Gruodis adds that both PE and venture capital funds from Germany and Poland are also among those seeking opportunities in the Baltic countries, while for some players already present in the region, the business cycle is driving exits.

The sale by BaltCap and its partners of Magnetic MRO to Guangzhou Hangxin for €43m is one example of this, as well as a sign that regional PE players are already mature enough to achieve multimillion exits. BaltCap also divested stakes in Lithuanian transport engineering company Kelprojektas, Estonian construction outfit TREV-2 Grupp and Latvian BPO company Runway. Meanwhile, Blackstone has said that it will seek an exit from Luminor via an IPO when the time is right.

Sven Papp says that the acquisition of regional cable operator Starman to US fund Providence in 2016 helped spur global PE interest in the region, though Scandinavian players have been active on the market for some time. The Luminor deal will amplify this effect, he says – and there have been other significant deals in 2018, including the acquisition of Utilitas by European Diversified Infrastructure Fund II, a fund managed by Australia's First State.

Robertas Ciocys, partner at Ellex in Lithuania, believes that the relatively small size of the Baltic markets can be a barrier to international PE investors, given the relative size of targets. "The challenge is that there are not enough targets especially of the size that would be attractive for the Scandinavian and Polish private equity funds," he says. "The market awaits for these funds to come. Most of the transactions are done by local PE funds and transactions are of the level of €10m or less. We are missing transactions in between and we are waiting for the mentioned Polish and Scandinavian funds to fill this gap."

Nonetheless, companies with valuations of €90m-€100m and above are drawing attention – and in many cases considerably smaller companies, should they have the right qualities. Meanwhile, local companies have become more receptive to selling to PE funds.

BALTIC OUTLOOK

While overall economic growth is expected to cool in 2019 and the global environment presents looming downside risks, the outlook for the dynamic Baltic countries is excellent. This year's big ticket deals indicate the regional market's strength and appeal to major international players. It may well be a harbinger of further inbound activity from large investors from around the world.

"The Blackstone deal in particular shows that the Baltics are on the radar screen of really big international investors," says Papp. "It's very important for this region."

The deal is also indicative of growing PE interest in the Baltics. While Scandinavian funds have been active for some time, the region has over the past three years seen increasing attention from Germany, Poland and the US. Even if large targets are still relatively scarce, there is a growing range of companies with the technology and market niche that make them attractive assets. Regional funds are also coming of age, as BaltCap's wave of divestments shows; and newer Baltic PE players are likely to be a feature of the market for years to come.

Over the past six months, a total of 52 "for sale" stories concerning Baltic companies have been tracked by Mergermarket, eight more than this time last year – a sign of the robust investor confidence in the region and a potentially strong pipeline for 2019 and beyond. Almost a third involve the TMT sector – which is not surprising considering the growing stature of the sector in the region.

This time last year, the industrials and chemicals sector had the most "for sale" stories being tracked, but the slowing global economy may have cooled sentiment in this area in the short term. Conversely, the consumer and business services segments feature among the strongest in the pipeline.

In the medium term, eyes will also be on the financial sector as regulation tightens further and troubled banks are wound down. Luminor's performance under PE ownership and its probable future IPO will also be of interest.

Capital markets on the rise

"Interest in public offerings and trading as a source of financing grew remarkably in the public sector. In Estonia, the state-owned Port of Tallinn was listed on the Main List of Nasdaq Tallinn Stock Exchange after a very successful initial public offering of shares; then there were several initiatives taken on state level to enliven the Estonian capital markets – e.g. state support for IPO costs was considered in order to raise the barriers of entering public markets for small and mid-sized enterprises. Rumour has it that there are several interesting capital markets in the pipeline, so 2019 will bring more new companies to public markets in all Baltic states."

Gerli Kilusk, partner in corporate/M&A and B&F practice, Ellex in Estonia

Baltic countries heat chart

Sector	Companies for sale stories
TMT	15
Consumer	7
Business services	7
Financial services	5
Transportation	4
EMU	4
Industrials & chemicals	4
Real estate	2
Pharma, medical & biotech	2
Agriculture	1
Construction	1

Companies for sale stories tracked by Mergermarket
01/08/2018 – 01/02/2019.

Latvia is expected to top the regional growth table, with the EC forecasting GDP expansion of 3.2%, against 2.8% for both Lithuania and Estonia. Global trade tensions, the cusp of the global economic cycle, the potential shock of a "hard" Brexit, and further eurozone difficulties all pose downside risks. Geopolitical tensions between the West and Russia are also a concern.

However, the three countries in the region have achieved remarkable macroeconomic and political stability and offer an excellent environment for business. The Baltic countries are eurozone economies, strongly integrated into the EU, but with growth rates considerably above the bloc's average. Despite the small size of the local markets, companies from the region have also shown remarkable ability to innovate and compete globally. "These are developing markets with a good growth rate," says Slaidins. "Based on the pipeline that we have now, M&A activity is set to continue at a good pace for the next year, Baltic-wide."

This year's big ticket deals indicate the Baltic market's strength and appeal to major international players. It may well be a harbinger of further inbound activity from large investors from around the world.

ABOUT ELLEX

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

Ellex Raidla	The largest and the highest ranked law firm in Estonia Established in 1993
Ellex Klavins	Team of highest demand practitioners with experience from London and New York financial markets Established in 1992
Ellex Valiunas	No. 1 choice of 80% of market leaders and majority top 100 foreign investors, the largest law firm in Lithuania Established in 1992

Market position

25+ Years of Baltic market leadership.

50+ Lawyers ranked by the most reputable legal directories in the world.

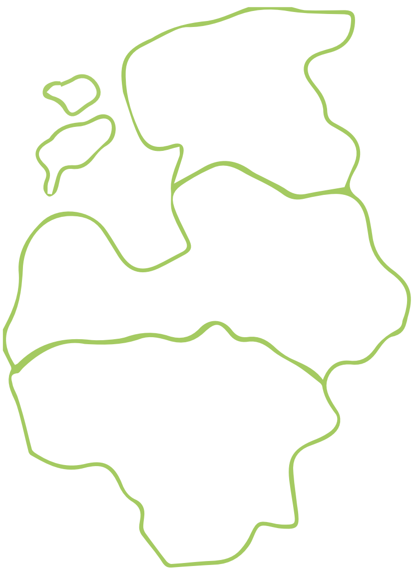
180+ Total number of lawyers.

2018 Awarded Baltic M&A Legal Adviser of the year by Mergermarket Europe M&A Awards.

5+ Involved in 6 of the 10 largest M&A transactions in the Baltics in 2018 (*source: Mergermarket*).

Top news

- In 2019, three veteran employees at Ellex in Lithuania – Mr. Robertas Ciocys, Mr. Karolis Kacerauskas and Mr. Miroslav Nosevic – have joined the management, which now consists of 18 partners.
- In 2018, new partner Ieva Dosinaite joined the Ellex in Lithuania Banking and Finance team. Before joining Ellex in Lithuania, Ieva Dosinaite was head of the finance industry group at the law firm TGS Baltic.
- In 2018, Liga Merwin was elected to a four-year term as Managing Partner of Ellex in Latvia.
- In 2018, Ellex in Latvia promoted senior associates Maris Brizgo, Valters Diure, Martins Gailis, Irina Kostina, and Sarmis Spilbergs to Associate Partner position.
- In 2018, Ellex in Estonia and Primus merged to create the largest Estonian law firm, strengthening Ellex's position as the largest firm across the Baltics.
- In 2018, Ellex has adopted Luminance, one of the most advanced artificial intelligence (AI) platforms, which is widely deployed by law firms around the world. The sophisticated machine learning technology will greatly accelerate and enhance the firm's contract review processes for M&A transactions.



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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 volume of deals on which we have advised.

Further information **www.ellexcircle.com**

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ABOUT MERGERMARKET

Mergermarket
An Acuris company

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

Acuris Studios

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