

# BALTIC M&A MARKET SURVEY

October 2012





ESTONIA LATVIA LITHUANIA BELARUS



**A current M&A survey among Baltic companies suggests that expectations from shareholders and equity investors are increasingly matching in Estonia and Lithuania, so that more acquisitions there could be expected in the next 12 months.**

The Baltic M&A survey was carried out for the second year in a row by SORAINEN together with Baltic business dailies *Äripäev*, *Verslo žinios* and *Dienas business*. While in general the M&A market is certainly not as active as during the fast development years, nevertheless based on the data Baltic companies in general are still relatively boldly thinking about acquisitions. This trend can be especially highlighted for Estonia and Lithuania.

Acquirers are more likely to buy a controlling stake (over 50% shares), but this requirement is down compared to last year's survey. The same trend can be seen in seller expectations, thus creating a good environment for deals to take place.

However, it must also be noted that as many as 41% of respondents who are planning to sell shares in their company have no idea how large a stake they are ready to sell. This shows that in the current "wait-and-see" economic environment, where estimates of next year's growth are unstable, many Baltic companies are very unsure about their future.

An interesting tendency showing that Baltic companies are widening their options is evident from the fact that more companies are looking for possible target companies outside the Baltics. While the main reason behind M&A activity continues to be expansion into new markets or segments, it now seems that companies are truly looking towards new markets. This tendency also explains why international/foreign investment banks are now more often considered as external M&A advisors.

The Baltic M&A market survey 2012 was conducted in September in Estonia, Latvia and Lithuania by polling more than 130 companies operating in various business sectors. On behalf of all organisers of the Baltic M&A Market Survey 2012, we would like to express our gratitude to all respondents who contributed to the survey. We trust that the survey will allow Baltic businesses and other M&A market players to obtain a better view of market trends and plan their business activities accordingly.

Sincerely Yours,

**Toomas Prangli**

Regional Head of the SORAINEN M&A and Private Equity Team

**Pekka Puolakka**

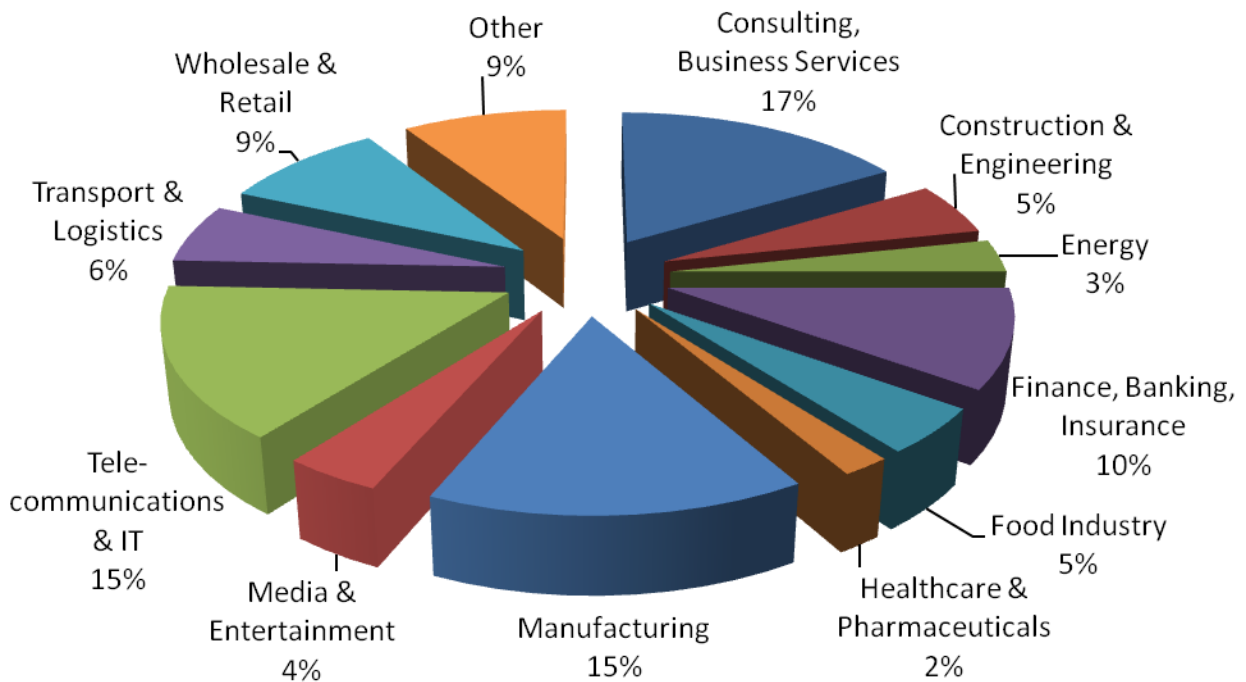
Head of the SORAINEN M&A and Private Equity Team in Latvia

**Laimonas Skibarka**

Head of the SORAINEN M&A and Private Equity Team in Lithuania

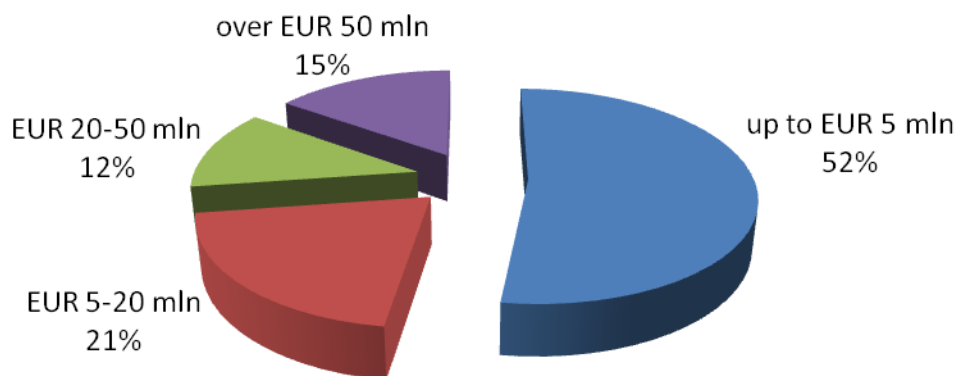
## ■ SURVEY PARTICIPANTS

### In which sector of the economy does your company operate?



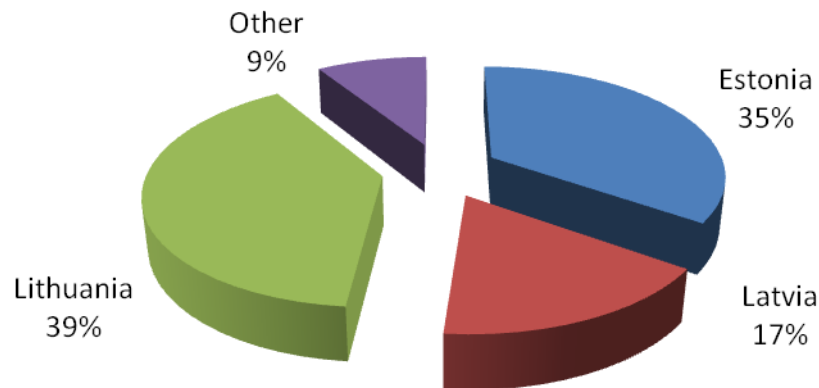
A wide range of sectors was well represented among respondents. Most active participants were from the consulting/business services, manufacturing and TNT fields.

### What was the revenue of your company in 2011?



Similarly to the 2011 survey, most respondents were from small and medium sized companies (SMEs) with annual revenue of up to EUR 5 million as these are most common in the Baltics, while larger companies also featured significantly.

## In which country is your company registered?

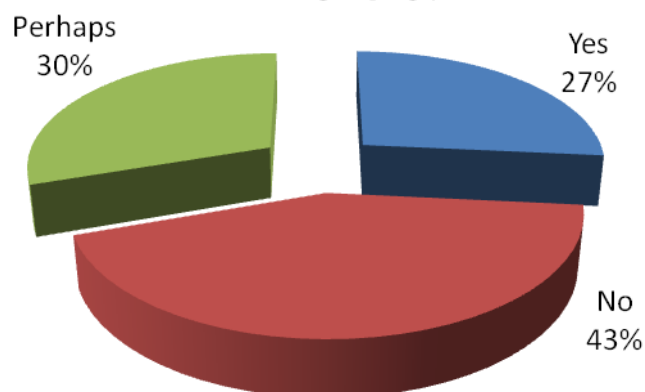


The survey had fair representation from all Baltic countries, with slightly fewer respondents from Latvia. Some 9% of all respondents (their companies) are registered in the three Baltic States or elsewhere.

### ■ ACQUISITIONS

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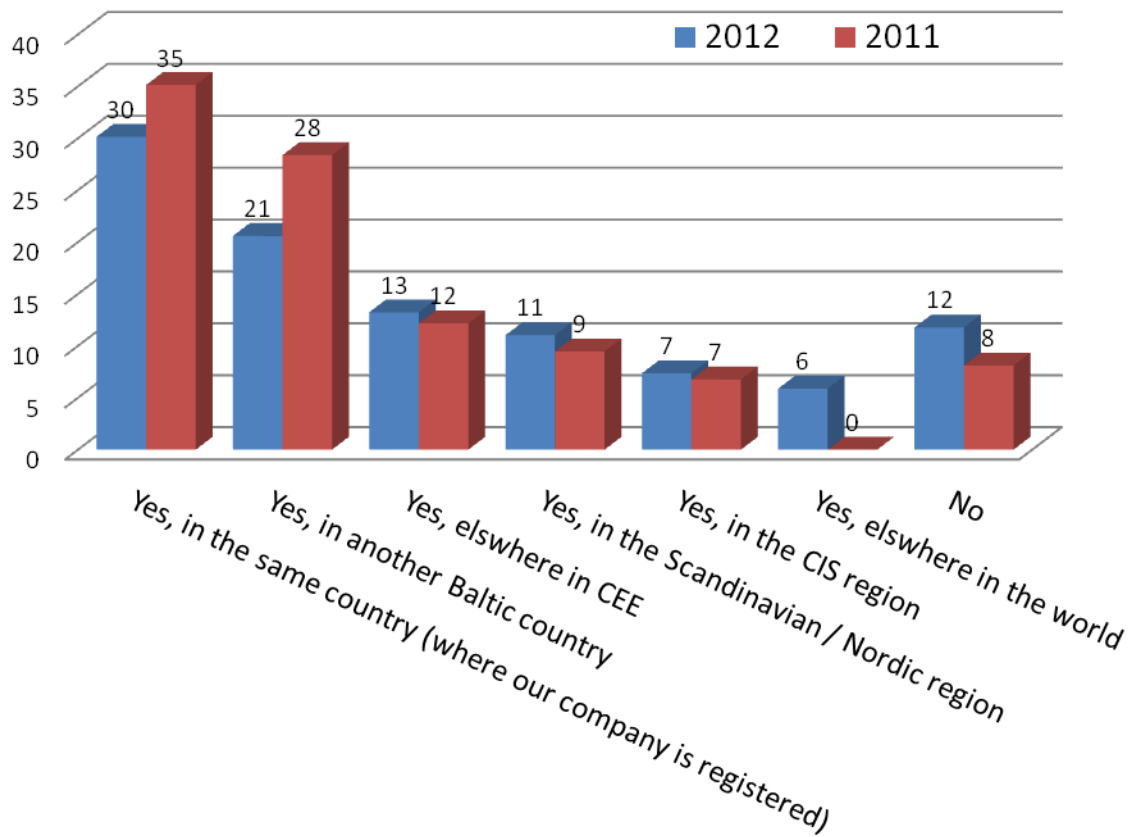
## Do you plan to purchase a company or line of business (the “target”) in the coming 12 months?



Compared with the 2011 survey, Baltic companies are rather more boldly thinking about acquisitions in the coming 12 months: more than ¼ (27%) of respondents are considering an acquisition, compared with only 20% in 2011. Altogether, 57% of respondents are either planning acquisitions or at least do not rule them out.

Most active in considering acquisition in 2012 are SMEs or very large companies with revenues over EUR 50 million. Every second very large company is actually looking for an acquisition opportunity. Furthermore companies operating either in Lithuania (36%) or Estonia (34%) are more actively seeking targets than companies from Latvia (18%).

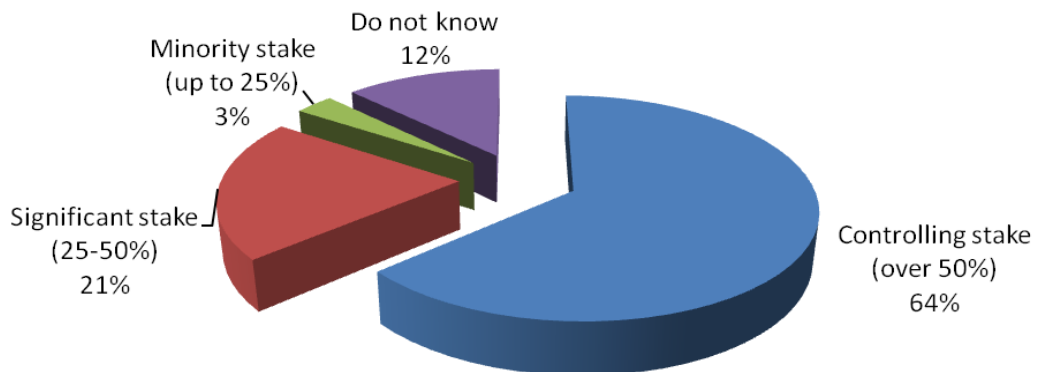
## Is there any specific geographic market where you are looking for a possible target? (%)



Most companies (88%) have quite clear acquisition goals regarding regions and more companies are looking for a target outside the Baltics (be it CEE, the Nordics or the rest of the world) compared to last year.

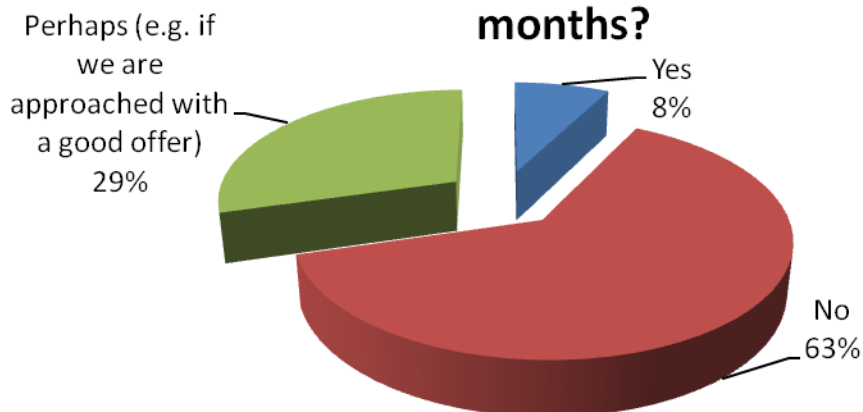
In general survey results show that 51% of acquisitions are planned for the Baltics (compared with 71% in 2011) and only 1/3 in the same country.

## What percentage of shares in the target you would be aiming to buy?



The majority of respondents are considering buying a controlling stake in a target company, the same trend as in the 2011 survey results. Thus the possibility of obtaining full control is still considered an important aspect in making an acquisition attractive, though compared to last year this preference has decreased by approx 10%.

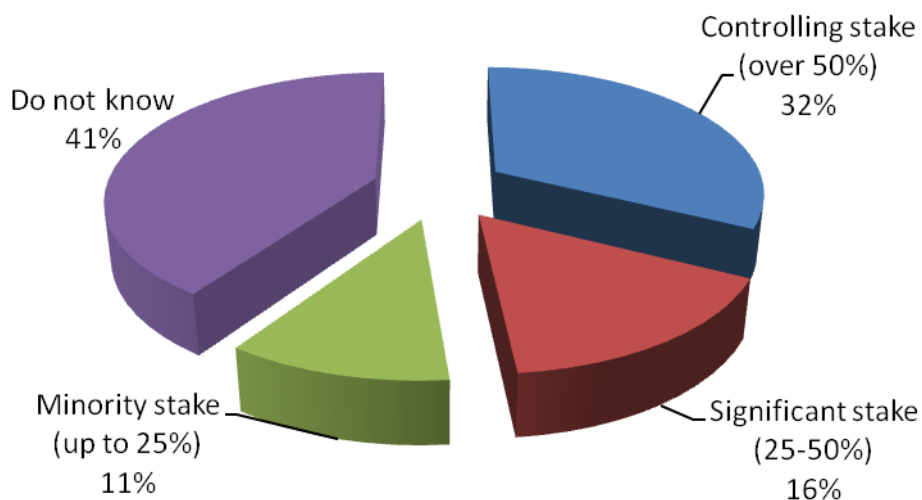
## Do you (your shareholders) plan to sell your company or line of business in the coming 12 months?



As to willingness to sell the company, the same trend continues as in 2011 – most companies do not plan to sell the company or business line while approximately 40% would sell or would consider sale in the case of a good offer.

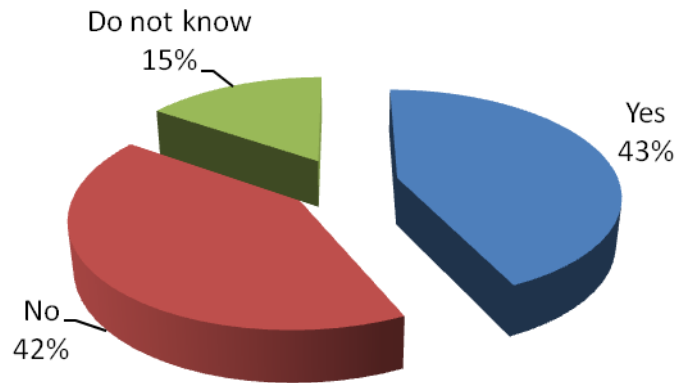
The majority of companies considering sale operate in Lithuania (50%) or Estonia (33%). As more companies are also looking to acquire in those countries, it can be concluded that the M&A market in 2013 will likely be more active in Estonia and especially Lithuania. Company sale is especially being considered by midsize companies with annual revenue of EUR 5-20 million (52% considering sale). In the small or very large company segment the proportion varies from 25-35%.

## What percentage of your company's shares you would be willing to sell?



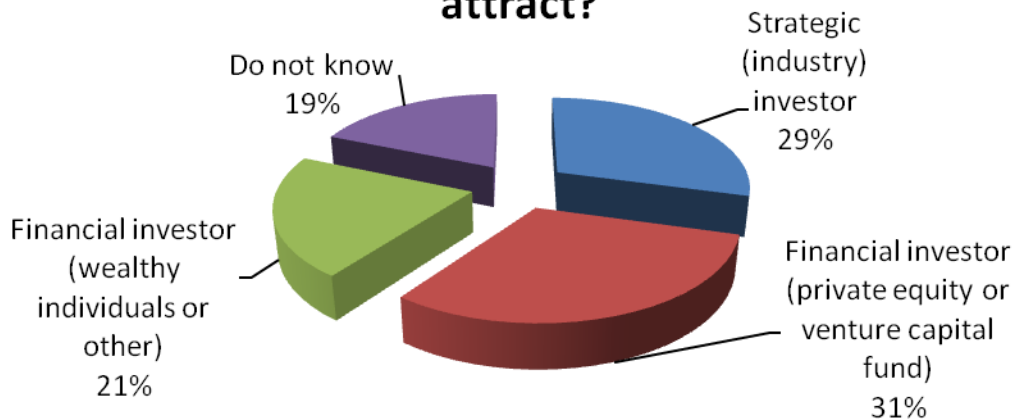
Following the economic recovery minimisation of business risks has changed sellers' position regarding the percentage of shares they would be willing to sell. During the crisis more than half of respondents (54%) were keen on selling a majority stake. Today only 1/3 (32%) would go for it. However, the survey results also identify that in the current fragile and uncertain economic climate, respondents do not have a clear vision of how a big stake in their company they wish to sell.

## Do you plan to attract additional investment into the company in the coming 12 months?



More than 40% of respondents intend to attract additional investment. Mostly these are smaller companies (turnover up to EUR 5 million) operating in energy, media & entertainment, TNT, wholesale & retail.

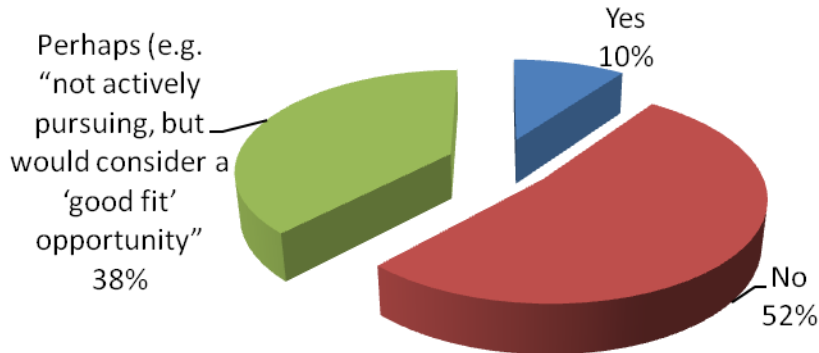
## What type of investors would you prefer to attract?



More than 50% of respondents are aiming to attract financial investors. This matches the trend that companies are less likely to sell a controlling stake, which is typically a requirement of strategic investors.

## ■ MERGERS

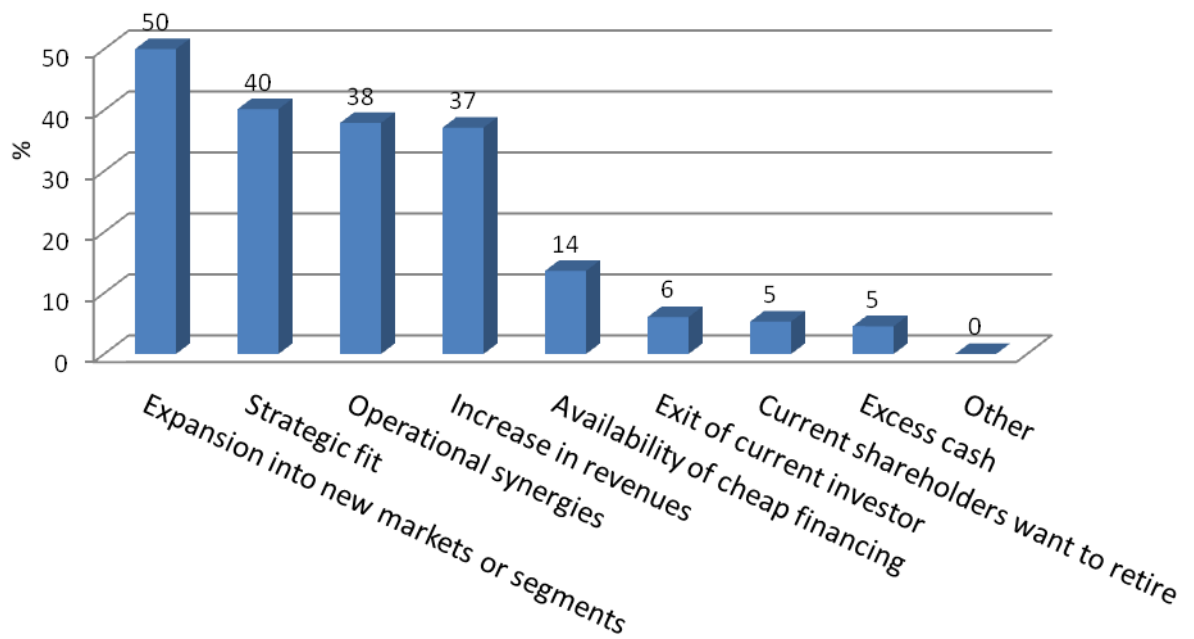
### Are you considering merging with another independent business (either competing or not) in the coming 12 months?



A corporate merger is still less favourably viewed compared to acquisition, although compared to the 2011 survey a merger seems to be a slightly more popular idea (increase of 7%). A merger alternative is very often considered by companies operating in the energy field, also quite often by consulting, business service, IT and telecommunication companies.

## ■ OTHER FACTORS

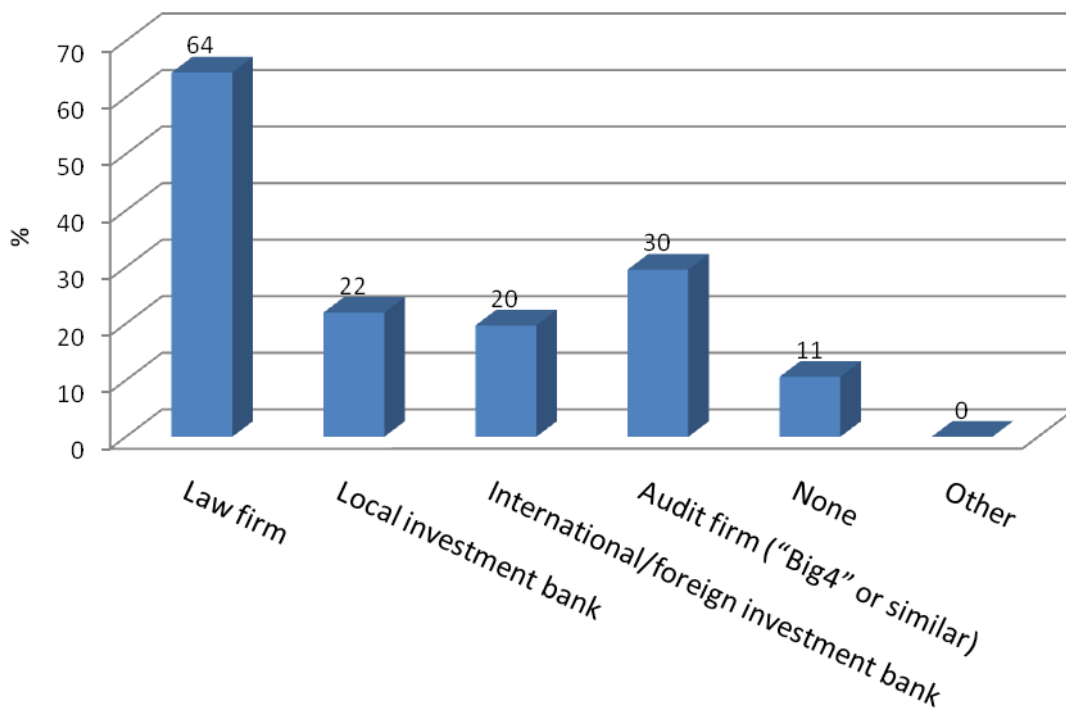
### What are the main reasons which would drive mergers and acquisitions (M&A) activity in your company?



The main reason for M&A remains expansion into new markets or segments. Operational synergy has lost its importance compared to 2011 and availability of cheap financing as a factor is more important than a year ago.



## What external advisors would you use to assist during an M&A transaction?



Still the most popular external adviser is a law firm and in general tendencies remain the same, while some increase is noted in the possibility of taking advice from international/foreign investment banks. This can be explained by increased interest in making acquisitions outside the Baltic States.



## ■ ABOUT THE SORAINEN M&A PRACTICE

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SORAINEN is the leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania and Belarus. Established in 1995, today SORAINEN numbers more than 120 lawyers and tax consultants advising international and local organisations on all business law and tax issues involving the Baltic States and Belarus.

Mergers & Acquisitions is a key SORAINEN practice. The firm is constantly involved in major M&A transactions in the Baltic States and Belarus. According to statistics from *Mergermarket* and other leading international M&A intelligence services, SORAINEN has the greatest experience in major M&A transactions in the Baltics and Belarus.

SORAINEN deploys a truly integrated regional M&A Practice and thus offers optimal capacity to advise on regional M&A deals involving two or more of the Baltic States and Belarus, substantially reducing the time, energy and resources necessary to structure and manage regional M&A projects.

SORAINEN is recommended for its M&A Practice by international directories such as *IFLR1000* (“‘It was a very good experience. They were very good at tasks at hand...flexible, hardworking, good standard of work,’ says one client, adding: ‘We got advice that was more business advice than purely legal.’”), *The Legal 500* (“‘SORAINEN is ‘not only a group of bright lawyers but a group of very professional, business-minded and client-orientated lawyers’ says a client.’”), *Chambers Global* and *Chambers Europe*.

## ■ CONTACT DETAILS

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### ESTONIA



**Toomas Prangli**  
toomas.prangli@sorainen.com  
Pärnu mnt 15  
10141 Tallinn  
phone +372 6 400 900  
fax +372 6 400 901  
estonia@sorainen.com

### LATVIA



**Pekka Puolakka**  
pekka.puolakka@sorainen.com  
Kr. Valdemāra iela 21  
LV-1010 Riga  
phone +371 67 365 000  
fax +371 67 365 001  
latvia@sorainen.com

### LITHUANIA



**Laimonas Skibarka**  
laimonas.skibarka@sorainen.com  
Jogailos 4  
LT-01116 Vilnius  
phone +370 52 685 040  
fax +370 52 685 041  
lithuania@sorainen.com

### BELARUS



**Kiryl Apanasevich**  
kiryl.apanasevich@sorainen.com  
ul Nemiga 40  
220004 Minsk  
phone +375 17 306 2102  
fax +375 17 306 2079  
belarus@sorainen.com