

# BALTIC M&A MARKET SURVEY

2013





ESTONIA LATVIA LITHUANIA BELARUS



## **Baltics regain attractiveness for M&A transactions**

The Baltic M&A Market Survey was carried out for the third year in a row by SORAINEN together with Baltic business dailies *Äripäev*, *Verslo žinios* and *Dienas business*. In general, in comparison to the previous two to three years when the economic recession caused a quite pessimistic mood, this year has brought more activity in M&A and private equity transactions. Motivation to expand business in neighbouring markets has returned. Positive expectations for development in the Baltics are indicated by the increase in the number of companies looking for potential targets in the region.

Both acquirers (52%) and sellers (34%) are more interested in transactions involving a controlling stake (over 50%) of a company's shares. Notably, the gap between the interests of these two groups has narrowed since the previous survey, thus creating a good environment for deals to take place.

As for the main reasons driving M&A activities, operational synergy has regained its importance and, as in 2011, is ranked as the top benefit that companies aim to achieve through M&A transactions. However, respondents have become more conservative in aiming for new markets.

The role of law firms as advisors in M&A transactions has grown year by year. At the same time, the number of respondents announcing that their activities would not require the involvement of external advisors has significantly declined during the whole research period. This trend promises many large-scale and complicated transactions for SORAINEN in the near future.

The Baltic M&A Market Survey 2013 was conducted in September-October in Latvia, Estonia and Lithuania by polling more than 100 companies operating in various business sectors. Data collected were used for comparative analysis to identify business interests and ambitions in the Baltic M&A market in 2013-2014.

On behalf of all organisers of the Baltic M&A Market Survey 2013, 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

**Eva Berlaus**

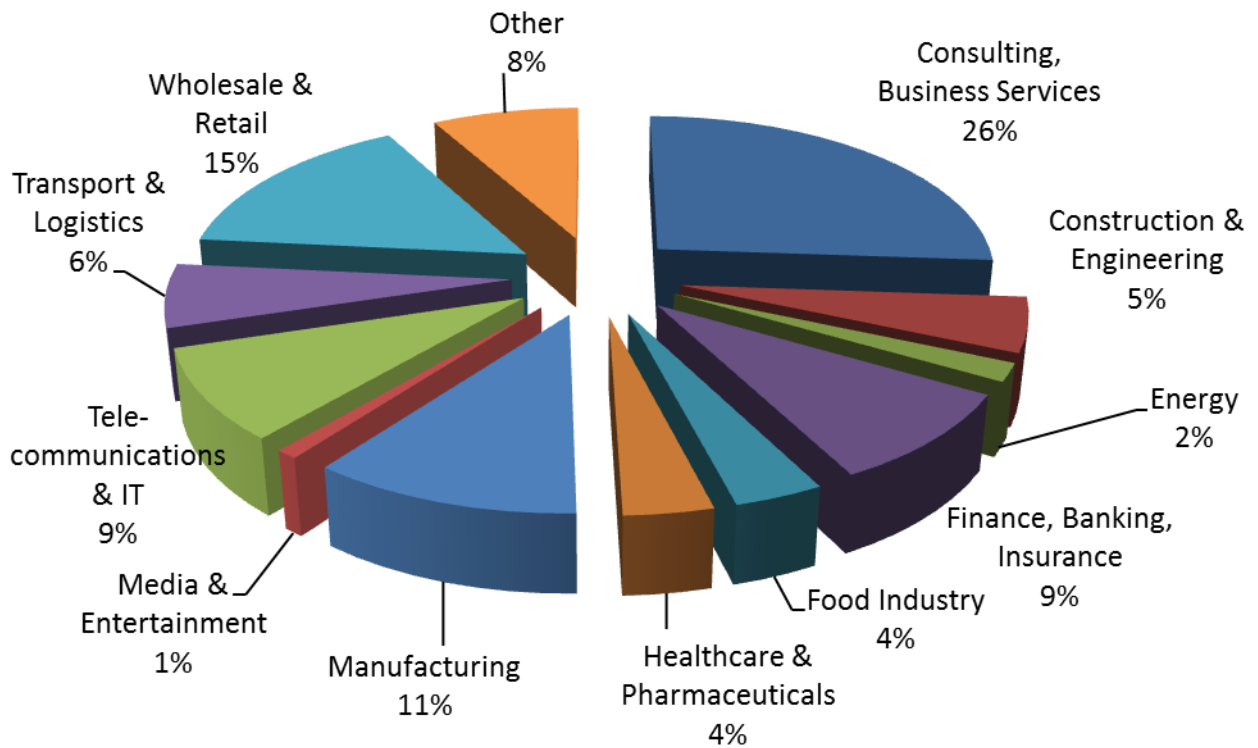
Head of the SORAINEN M&A and Private Equity Team in Latvia

**Laimonas Skibarka**

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

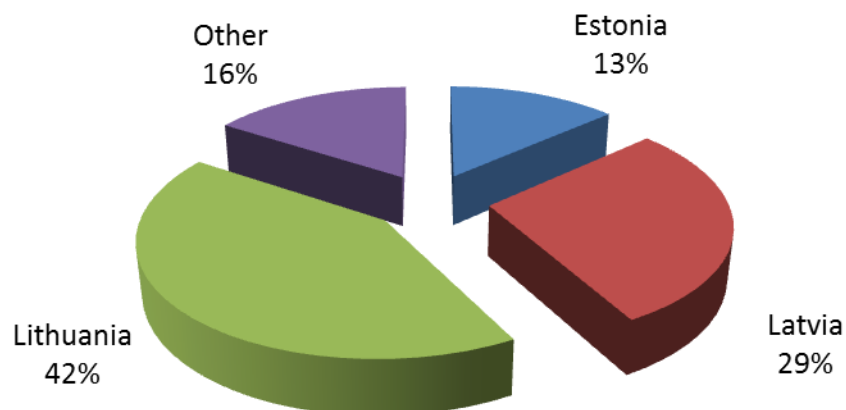
## ■ SURVEY PARTICIPANTS

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



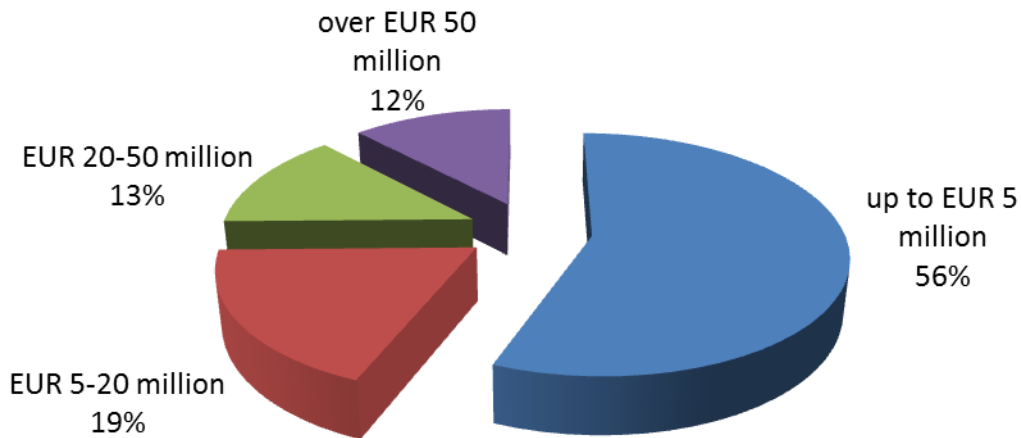
A wide range of sectors was well represented in the survey; most active participants were from the consulting/business services, wholesale and retail, as well as manufacturing fields.

### In which country is your company registered?



In 2013, most respondents have their companies registered in Lithuania, fewer respondents are from Estonia. 13% of the companies represented are active in more than one Baltic country.

## What was the revenue of your company in 2012?

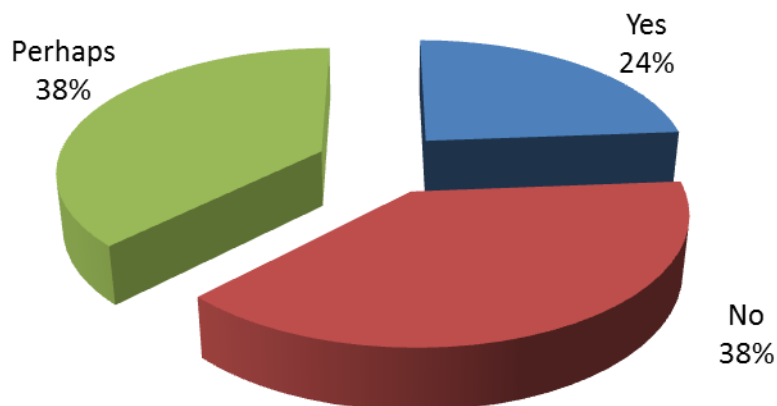


As in previous years, most active respondents were from small and medium-sized companies, while bigger companies also had reasonable representation.

### ■ ACQUISITIONS

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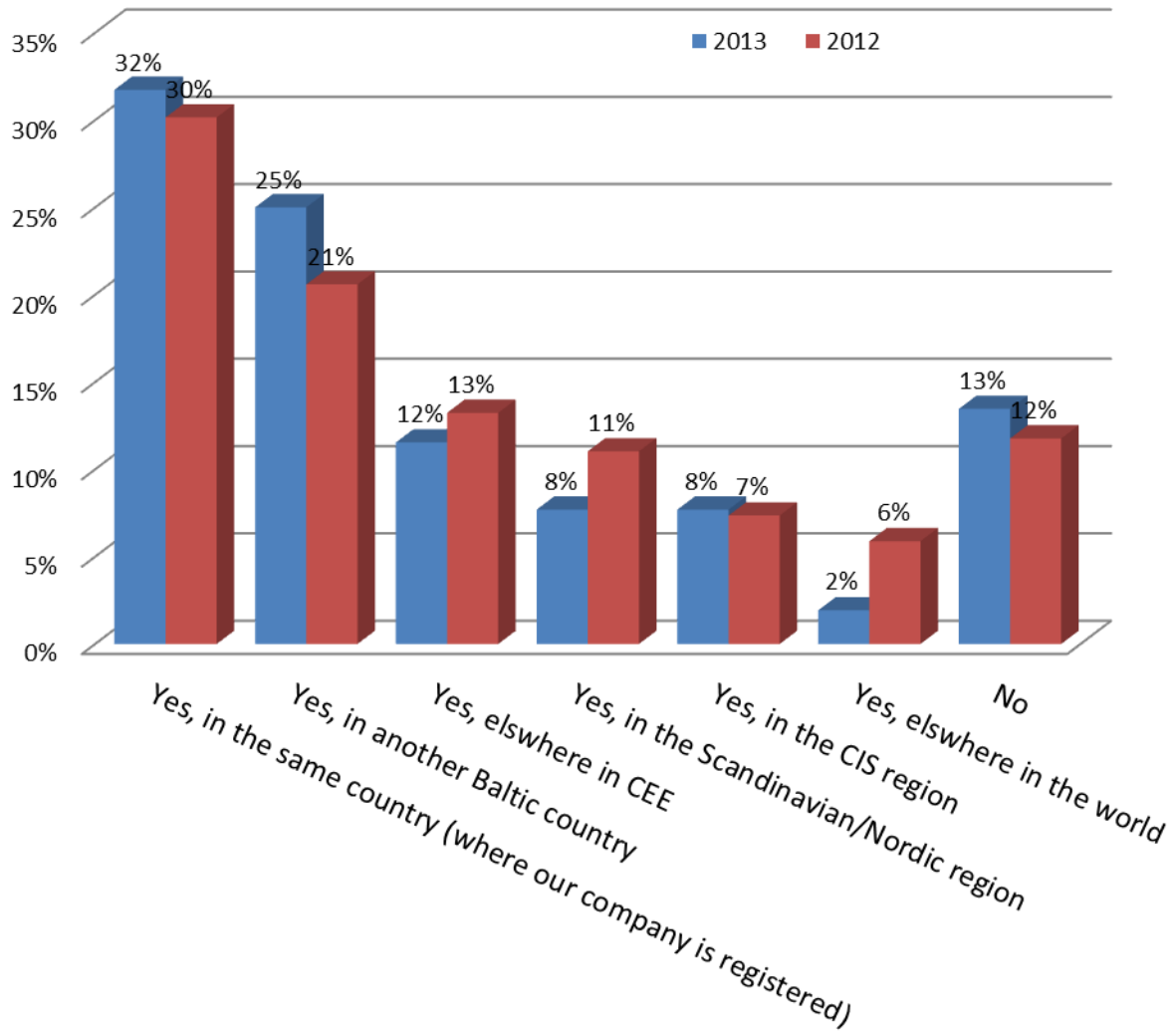
## Do you plan to purchase a company or line of business (the “target”) in the coming 12 months?



Generally, it can be said that the mood has become less certain in the Baltics compared with the previous year's results. Answers “yes” and “no” have become a little bit less popular, while the segment of companies who have no clear vision and plans has grown significantly.

The most enthusiastic attitude towards potential acquisitions can be observed in Lithuania and countries outside the Baltics where 1/4 of respondents are actively looking for targets. In Estonia and Latvia 1/5 of respondents are sure about acquisition plans. It is notable that the banking, finance and insurance sector differs from others in showing significantly higher interest (1/3 of responses are positive).

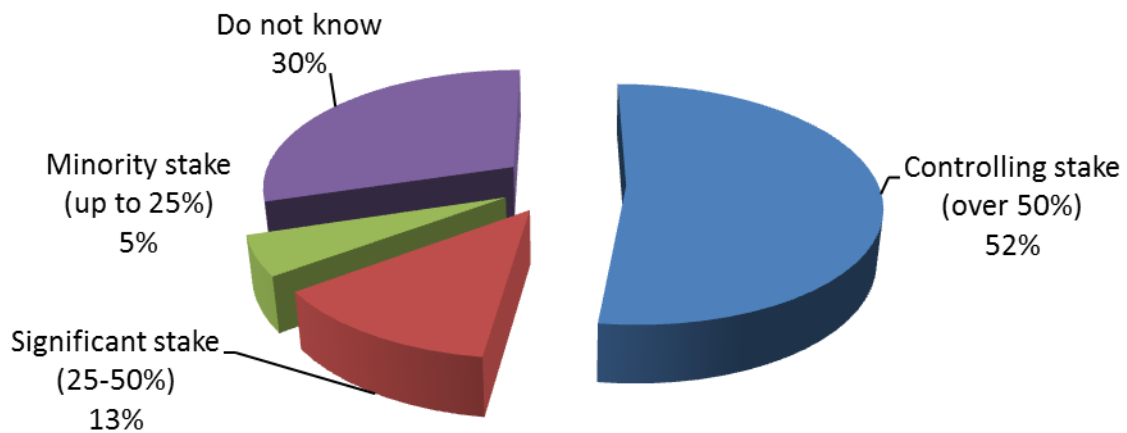
## Is there any specific geographic market where you are looking for a possible target? (%)



Comparing results of the three consequent surveys clearly shows that after declining in 2012, interest in the closest markets (own country or other Baltic country) has returned almost to the level of 2011. The amount of companies looking for targets in the CIS region is stable, while Nordic countries and the rest of Europe have become slightly less popular markets compared with previous results.

In general, survey results show that 57% of acquisitions are planned to be made in Baltic countries, which is 6% more than in 2012. It confirms that Baltic region companies have a more positive vision of the outlook for their own region than they had a year ago.

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

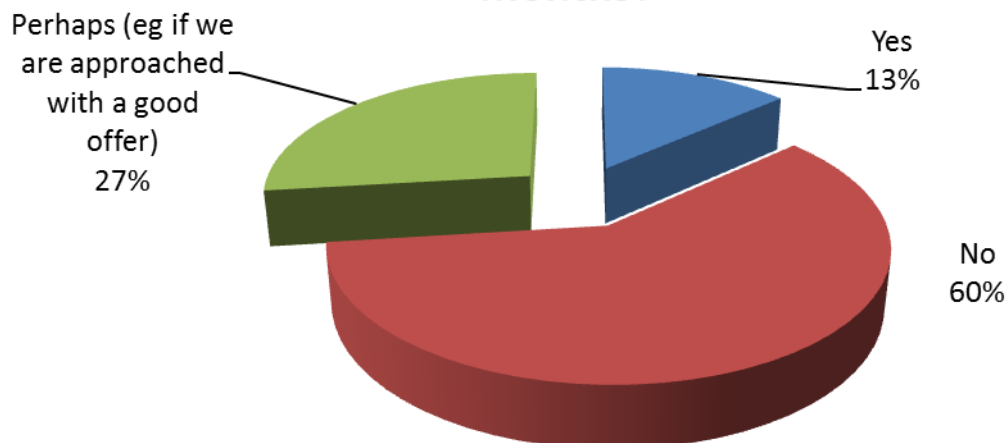


Although the majority of respondents continue to prefer to obtain a controlling stake in a target company, the demand is decreasing year by year. The number of uncertain respondents, on the other hand, has grown almost three-fold during the year. This indicates that the market is generally more open for different acquisition models than at any point in these three years.

### ■ BUSINESS SALE

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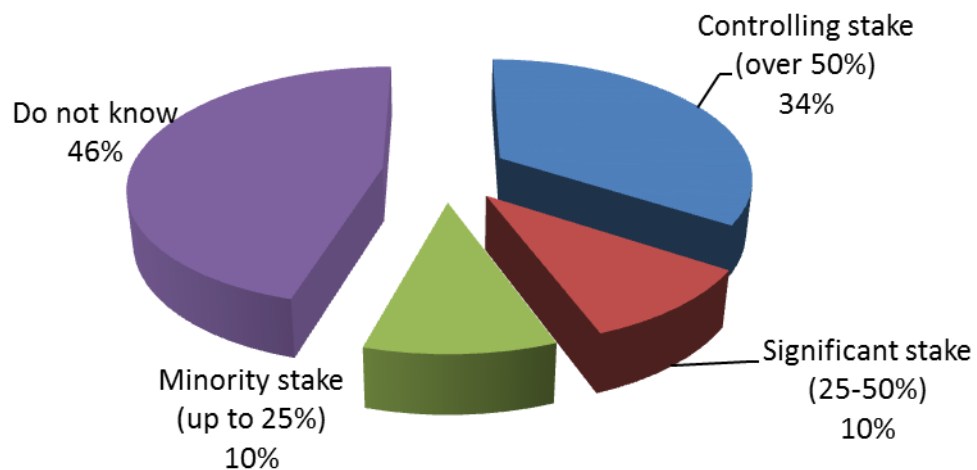
## Do you (your shareholders) plan to sell your company or line of business in the coming 12 months?



Regarding willingness to sell the company, the same trend continues from 2012 – most companies do not plan to sell the company or business line, while 40% would sell or would consider sale in the case of a good offer.

The majority of companies considering selling operate in Lithuania (15%) or Latvia (14%).

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

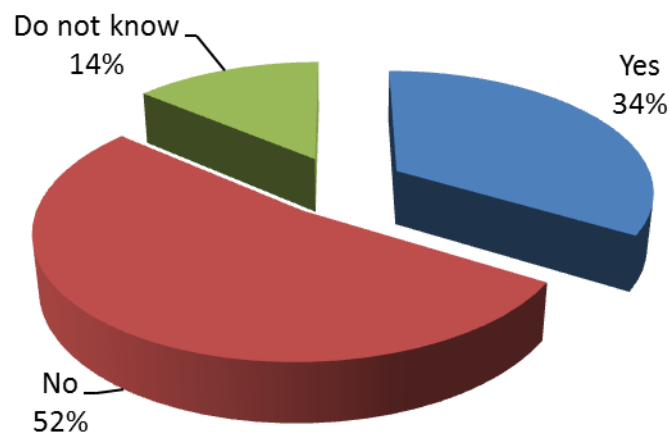


In general, tendencies remain the same as in previous years – more than a third of companies willing to sell their shares would offer a controlling stake to the buyer. Almost half of the potential sellers have not made up their minds on what model to choose. The largest group that would consider selling a controlling stake are mid-size companies with annual turnover of EUR 5-20 million (41% would offer a controlling stake).

### ■ INVESTMENTS

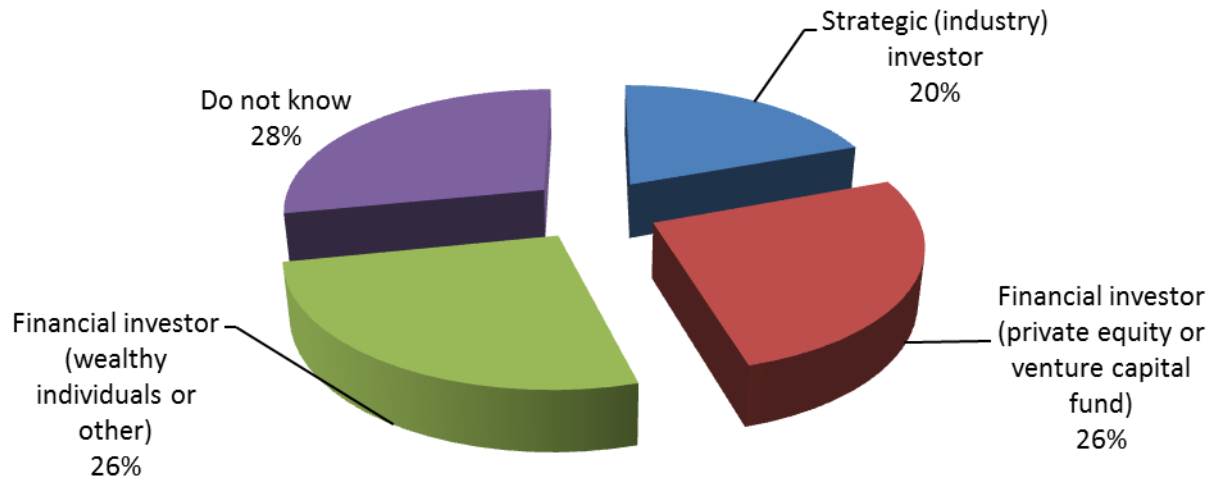
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## Do you plan to attract additional investment into the company in the coming 12 months?



Interest in attracting additional investments has decreased since the last survey by 10%. Most interested in attracting investment are small companies (annual turnover up to EUR 5 million) and mid-size companies (turnover EUR 5-20 million), while only every fourth company with turnover over EUR 20 million would be interested in attracting extra money in the coming 12 months.

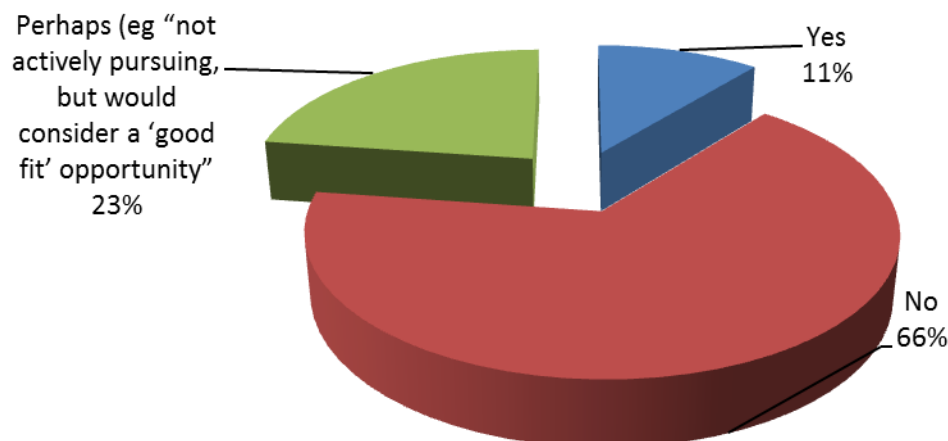
## What type of investors would you prefer to attract?



More than 50% of respondents are aiming to attract financial investors. This matches the trend that companies are less willing to sell a controlling stake in their companies, which strategic investors usually want to acquire. Interest in attracting strategic investors has dropped by 10% and the share of those who have not made up their minds has grown by the same amount.

### ■ MERGERS

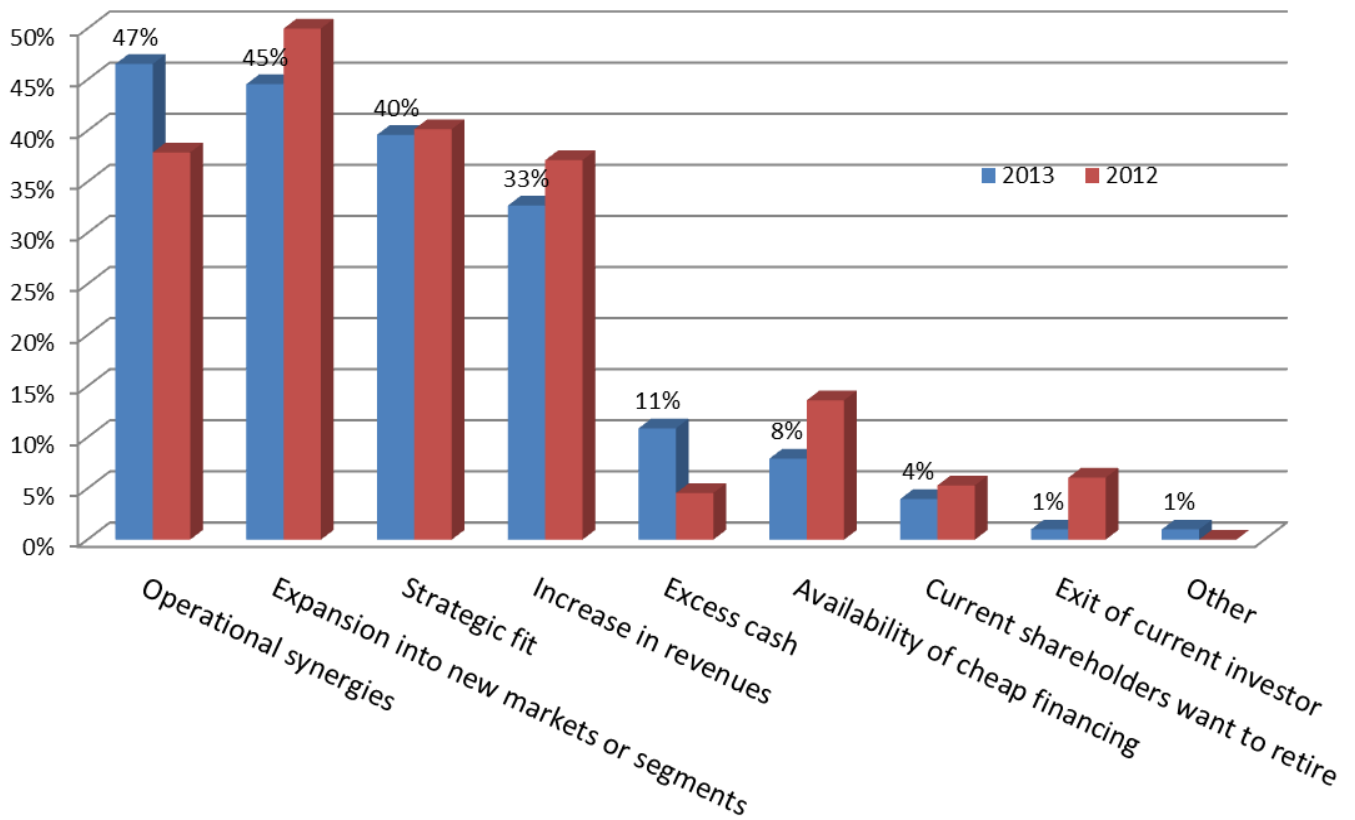
## Are you considering merging with another independent business (either competing or not) in the coming 12 months?



Unlike the acquisition segment, respondents have become more certain in their answers regarding merging their business with other market players. Thus the percentage of those considering merging has grown by 1% and those rejecting such possibility by 14%. The merger alternative is more commonly considered by companies operating in the consulting and business services, IT and telecommunication and banking sectors. There is no significant difference between the Baltic countries in terms of planned mergers – around 1/3 of respondents is either planning, or not denying the possibility of, merging with another company.



## What are the main reasons which would drive M&A activity in your company?

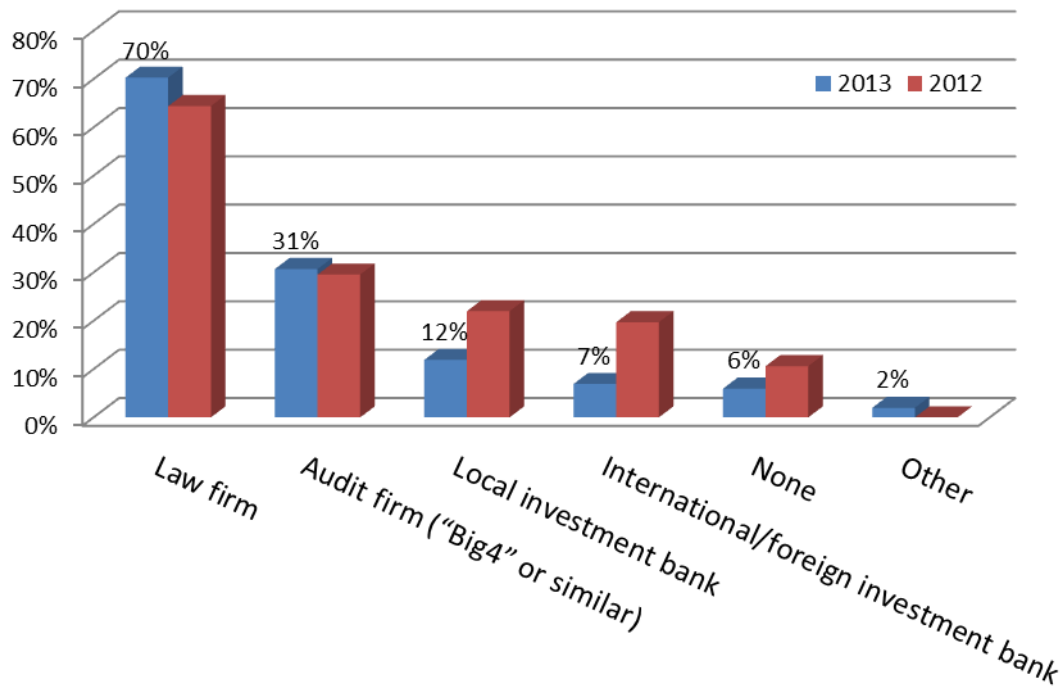


Operational synergy has regained its importance and, as in 2011, is the most important benefit that companies aim to achieve from M&A transactions.

At the same time respondents have become more conservative in aiming for new markets, and availability to improve the company's cash flow is twice as important as a factor compared to 2012.

## OTHER FACTORS

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



An increasing number of respondents are indicating that law firms would be the most used external advisers in an M&A transaction. The percentage of respondents willing to take care of all M&A transaction aspects themselves has decreased by half since the last survey.



## ■ 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 140 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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