

# BALTIC M&A MARKET SURVEY

November 2011





SORAINEN, in co-operation with Baltic business media leaders *Verslo žinios* (Lithuania), *Dienas business* (Latvia) and *Äripäev* (Estonia), have carried out the Baltic M&A Market Survey 2011. This was the first ever survey of its kind across the three Baltic States. A total of 144 companies operating in the Baltics participated in the survey, conducted in September and October. Preliminary results of the survey were announced on 27 October 2011 during the Baltic M&A and Private Equity Forum 2011 in Vilnius. With this report we provide the full results.

The aim of the survey was to identify the interests and plans of Baltic companies in relation to business acquisitions, sales and mergers (i.e. M&A activities) in 2011-2012 as well as to forecast trends in the market in the short-term perspective. The overall results were quite positive: it appears that Baltic companies are rather actively considering M&A activities despite current uncertainties in the financial markets. About half of the respondents have acquisition plans (19%) or would consider (31%) acquisitions in the coming 12 months. Notably, the majority of acquisitions (63%) are planned within the Baltic States. Furthermore, over a third of respondents have plans (10%) or would consider (26%) selling their company or line of business during the next 12 months. Finally and quite interestingly, the survey revealed that Baltic businesses are increasingly interested in attracting financial investors such as private equity funds.

On behalf of all organisers of the Baltic M&A Market Survey 2011, we would like to express our gratitude to all respondents who contributed to the survey. We trust that this 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. We hope that the Baltic M&A Market Survey will become a tradition and plan to repeat it next year.

Sincerely Yours,

**Toomas Prangli**

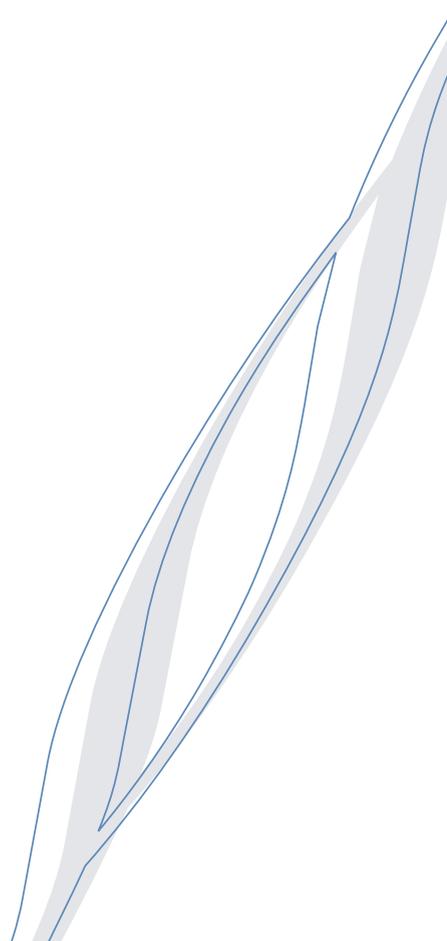
Regional Head of the SORAINEN M&A and Private Equity Team

**Laimonas Skibarka**

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

**Eva Berlaus**

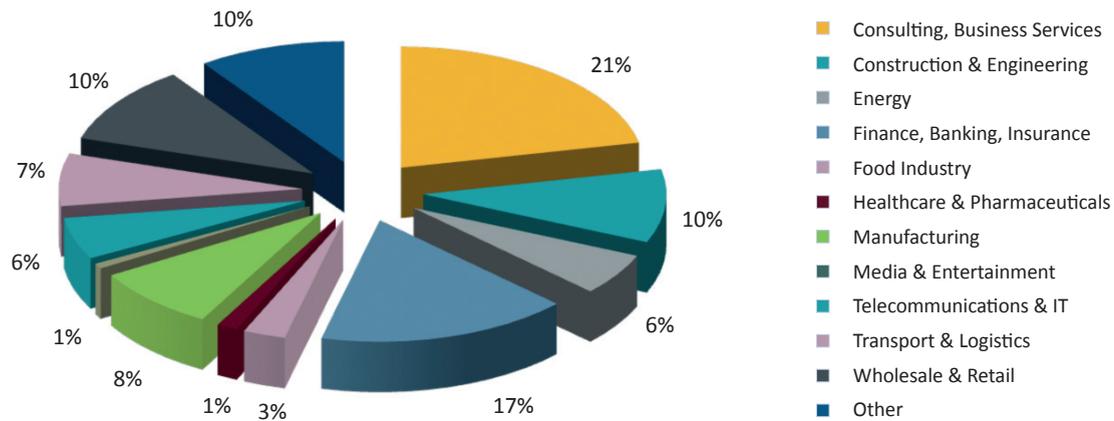
Head of the SORAINEN M&A and Private Equity Team in Latvia



## ■ SURVEY PARTICIPANTS

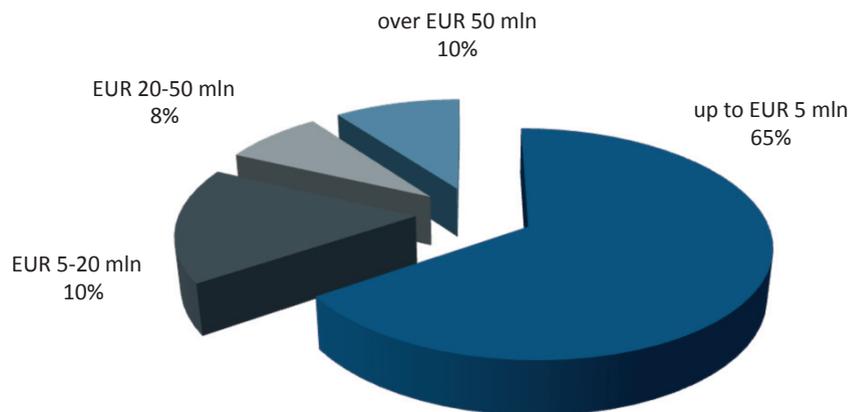
### Wide representation of business sectors and companies in the Baltics

In which sector of the economy does your company operate?



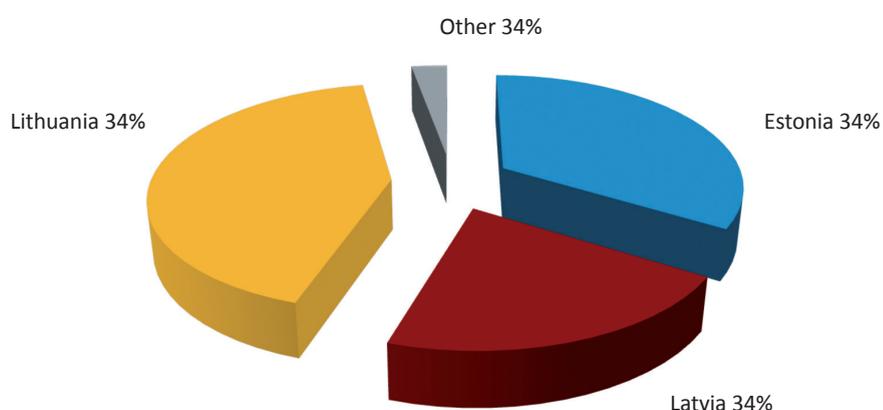
- All key sectors of the economy were represented in the survey, most active being consulting and business services (21%), finance, banking and insurance (17%), construction and engineering (10%), wholesale and retail (10%).

What was the revenue of your company in 2010?



- Though the majority of respondents (65%) were small and medium sized businesses with revenues up to EUR 5 million, the survey also covered a fair part of larger businesses.

In which country is your company registered?



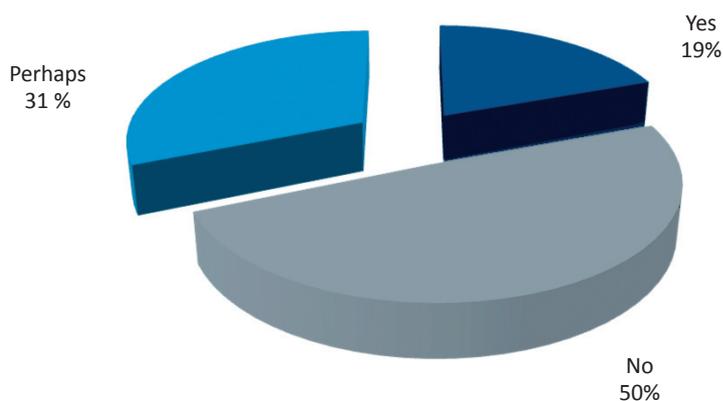
- Most respondents were from Lithuania (42%), slightly fewer from Estonia (34%) and Latvia (21%). Lithuania, as the largest economy in the Baltics, naturally attracted the highest share of respondents. The lower share of Latvian respondents might indicate a lower interest in M&A activities in Latvia, where economic recovery has been slower.

## ■ ACQUISITIONS

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### Half of respondents are considering acquisition of another company or line of business

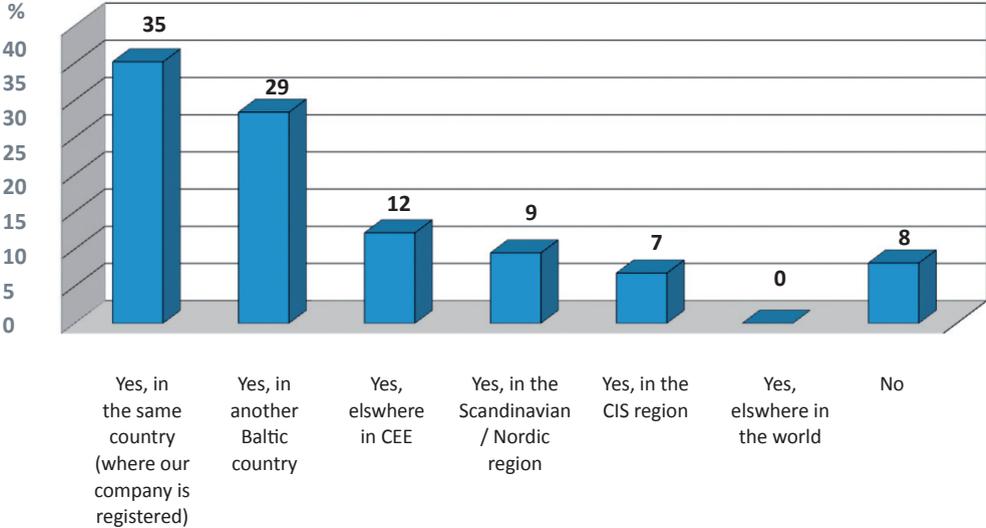
Do you plan to purchase a company or line of business (the “target”) in the coming 12 months?



- Half of respondents commented that they are considering acquisitions – 19% of respondents have certain acquisition plans, 31% would consider available options. This suggests that despite uncertainty in the financial markets Baltic companies are rather actively considering acquisitions.
- Companies registered in Lithuania are most enthusiastic about acquisitions – even 58% of Lithuanian respondents confirmed their interest in acquisitions during the coming year. The percentage decreases to 50% for Latvian respondents and 44% for Estonian respondents.
- Acquisitions are more often considered by larger companies – nearly 60% of companies with revenues over EUR 5 million and less than 50% of those with revenues below EUR 5 million responded positively to this question.

### The majority of acquisitions are planned in the Baltic region

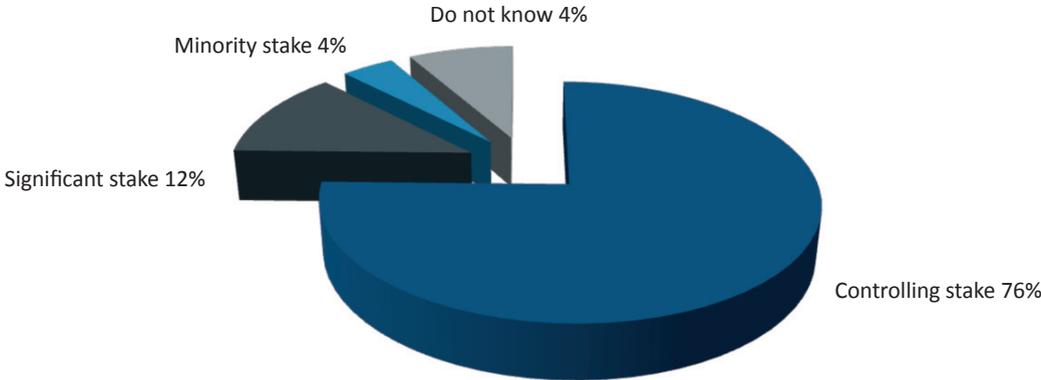
Is there any specific geographic market where you are looking for a possible target?



- The majority of acquisitions are planned in the Baltic region (64%), with the rest in neighbouring regions – CEE, CIS, Scandinavian/Nordic region. Interestingly, no respondent is planning acquisitions further afield than these regions.
- 41% of acquisitions in the Baltics are planned in Lithuania and 35% with 24 % in Latvia and Estonia respectively.
- These results confirm that Baltic companies are mostly interested in expanding within the Baltic region and neighbouring markets geographically and culturally closest to them.

### Companies are willing to acquire a controlling stake in the target

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

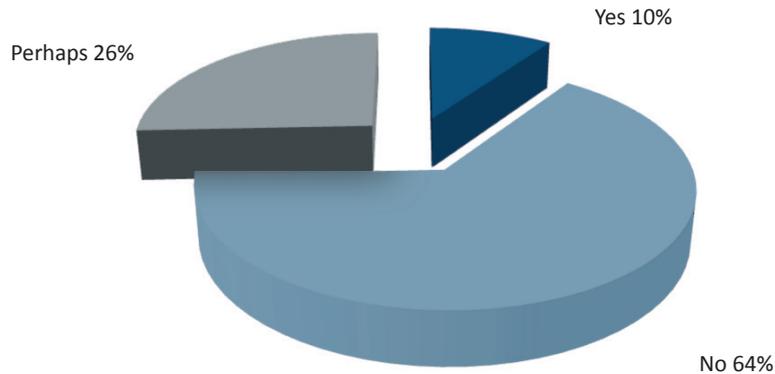


- The majority of respondents (76%) would be aiming to buy a controlling stake in a target company and only 16% would acquire a minority stake. Thus, the possibility of obtaining full control is usually considered an important aspect in making an acquisition attractive.

## ■ BUSINESS SALE

### Small companies are keener on selling their business

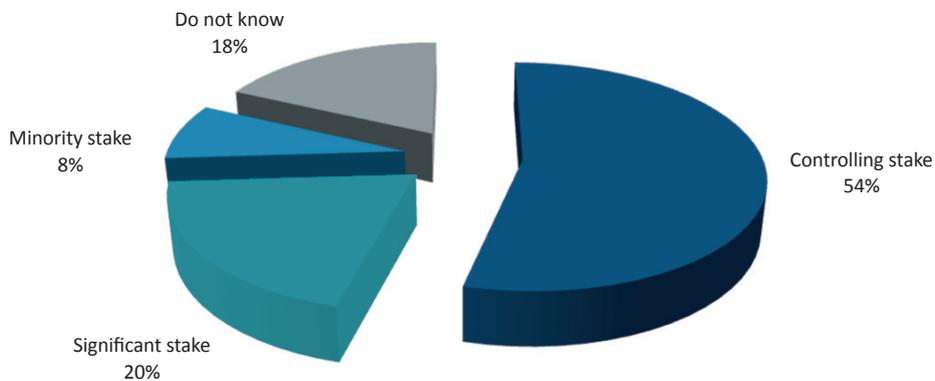
Do you (your shareholders) plan to sell your company or line of business in the coming 12 months?



- More than a third of respondents are considering sale of their company or line of business in the next 12 months – 10% have certain sale plans, while 26% would consider the possibility of selling if approached with an attractive offer.
- The majority (63%) of those businesses are small/medium companies with revenues up to EUR 5 million. Larger companies rarely have sale plans.
- So the following trend may be noted – smaller businesses are more ready for sale. This may be due to the fact that smaller companies find it more difficult to compete in the market and are more interested in attracting a stronger investor or realising their value through full sale.

### Sellers prefer to retain a stake in their company

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

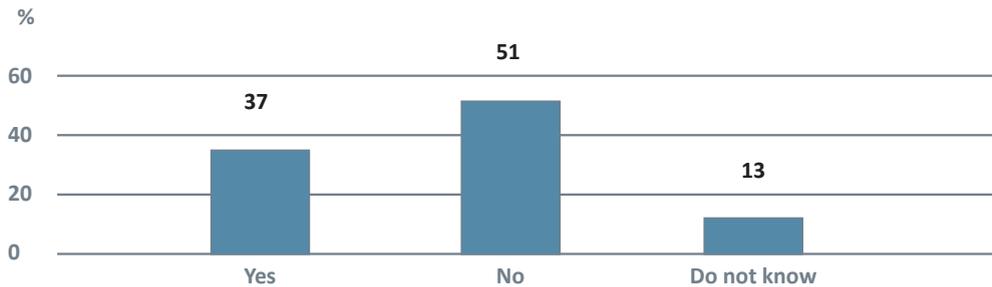


- While the majority of sellers are ready to sell a controlling stake, 28% would still like to retain a majority shareholding in their company.
- Thus, even though sellers want to attract additional investment to their company, a significant number are still keen to keep the controlling stake and grow the company together with new investors.

## ■ INVESTMENTS

### Small companies are more interested than others in attracting additional investment

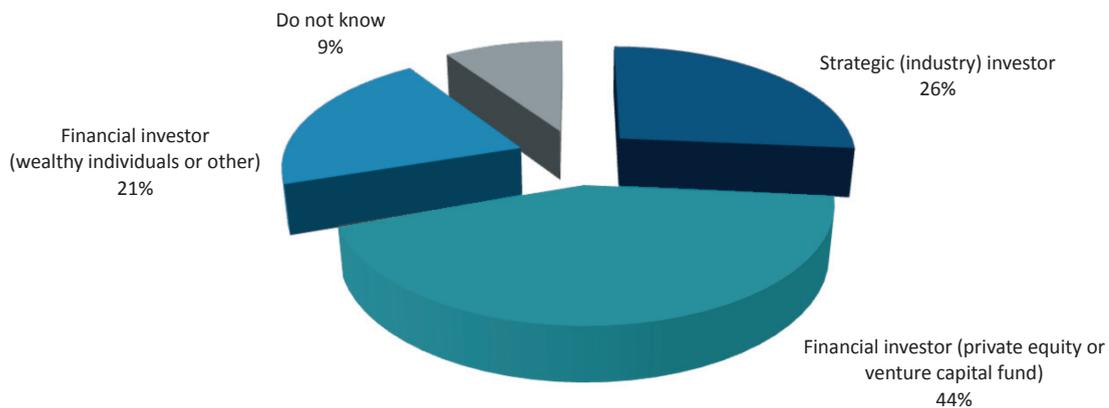
Do you plan to attract additional investment to your company in the coming 12 months?



- More than a third of respondents have intentions of attracting additional investment. These companies are mainly small and medium sized businesses (with revenues up to EUR 5 million) engaged in construction and engineering, healthcare and pharmaceuticals, media and entertainment, telecoms and IT, as well as the food industry. Finance, banking & insurance plus energy businesses appear to be less interested in additional investment.

### Financial investors are seen as the most attractive

What type of investors would you prefer to attract?

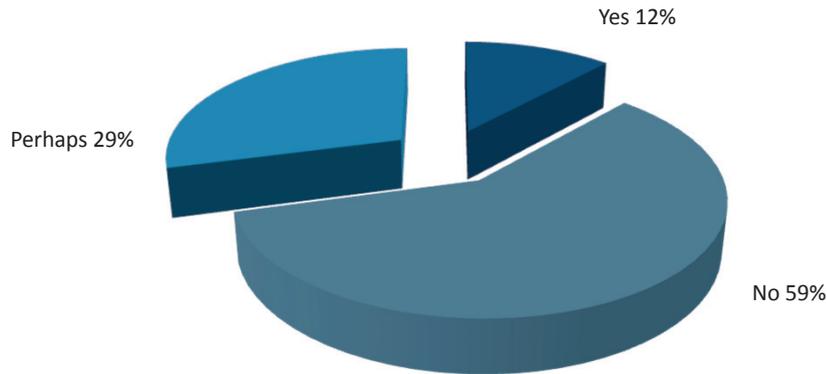


- 65% of companies wishing to attract investment would prefer a financial investor (private equity / venture capital funds (44%) or wealthy individuals (21%)), while only 26% of companies are interested in strategic (industry) investors.
- This suggests that Baltic businesses increasingly view private equity as an attractive source of capital. This also results from the growing number of – and greater activity by – private equity funds in the Baltics. This preference is apparently supported by the understanding that financial investors may allow existing owners to further develop the business and increase its value. It may also be explained that Baltic businesses often prefer to retain a certain independence with private equity among shareholders, rather than falling under the control of a strategic investor.

## ■ MERGERS

### Business consolidation through mergers seems less popular

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

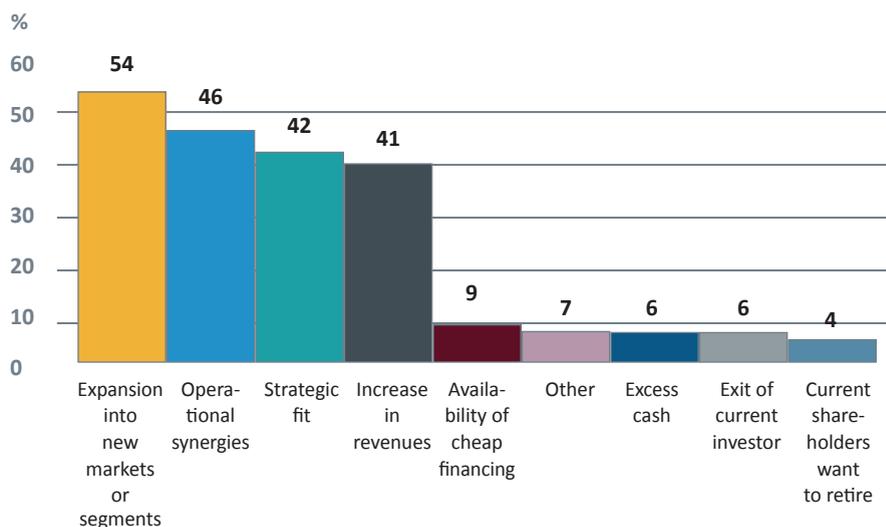


- 12% of respondents are seriously considering merging with another independent business, while the other 29% may consider it e.g. in the case of a “good fit” opportunity.
- The merger as a tool for consolidation or expansion is mostly considered by companies active in construction and engineering as well as the energy sector. On the other hand, companies involved in manufacturing, telecoms and IT, wholesale and retail are not so interested in mergers.
- This indicates that among Baltic companies consolidation through mergers appears to be less popular than expansion through acquisitions.

## ■ OTHER:

### Expansion into new markets or segments – the key driver of M&A

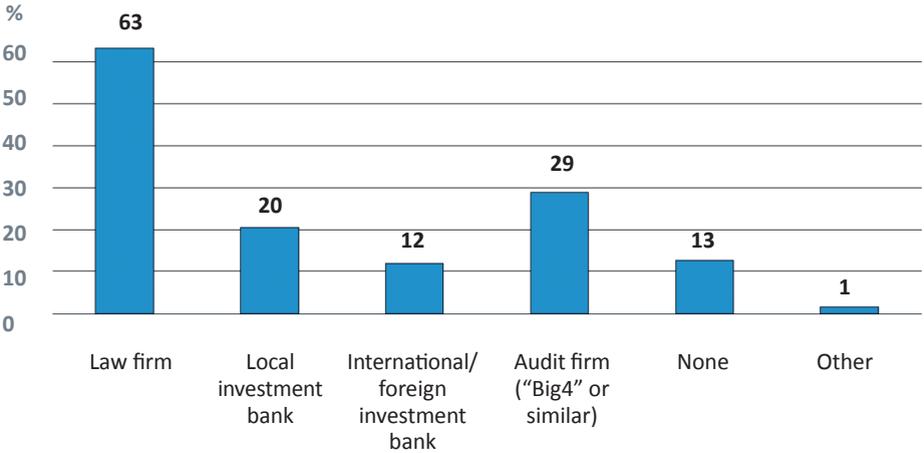
What are the main reasons which would drive M&A activity in your company?



- Respondents usually indicated one reason (around 35% of all respondents) which most often was expansion to new markets or segments. When indicating several reasons, respondents quite often mentioned operational synergies, strategic fit and increase in revenues.
- The results show that the main drivers of M&A activity among Baltic companies are business interests to grow through expansion into new markets or segments and increase of revenues, as well as to benefit from operational synergies and strategic fit. Other M&A drivers, such as availability of cheap financing, excess cash, exit of current investor, are considered rather secondary by most companies (less than 10% of responses).

**Professional advisers are usually retained for M&A transactions**

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



- The prevailing majority of respondents (87%) plan to use professional advisers during an M&A transaction. 63% of respondents would use a law firm, 32% would appoint an investment bank (20% – local investment bank, 12% – international investment bank) and 29% would hire an audit firm. Thus, many respondents would engage two or three advisory firms for M&A transactions.



## ■ 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 (M&A) is a key practice of SORAINEN. The firm is constantly involved in major M&A transactions in the Baltic States and Belarus and has advised on more than 500 M&A transactions to date. According to statistics of Mergermarket and other international M&A league tables, SORAINEN has the largest experience in major M&A transactions in the Baltics and Belarus.

SORAINEN boasts an integrated regional M&A and Private Equity Team which provides fast and efficient advice in local and in particular regional acquisition, sale and other M&A and private equity transactions across the Baltic States.

SORAINEN is the only law firm awarded as the best Baltic M&A legal advisor by *The Financial Times & Mergermarket*. The award was presented to SORAINEN at the European M&A Awards 2008 for advising on the largest number of M&A transactions and for the largest total value in the Baltic States. SORAINEN was also named the "Baltic Law Firm of the Year" for two years in a row at the *International Financial Law Review* European Awards 2009 and 2010. SORAINEN received these awards for advising on the most complex and innovative international transactions in the areas of M&A, debt, equity and capital markets, project financing and restructuring.

SORAINEN is also recommended as a top law firm for M&A transactions by leading international legal directories – *IFLR 1000*, *The Legal 500*, *Chambers Global*, *PLC Which lawyer?*.

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