Baltic M&A Monitor

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Contents

Foreword

Welcome to the Baltic M&A Monitor, a comprehensive review of M&A activity in the Baltic region published by Raidla Lejins & Norcous in association with Mergermarket. This report provides a detailed look at M&A activity in Estonia, Latvia and Lithuania, including sector-specific and country-specific trends, and forecasts for the 12 months ahead.

As was the case last year, the Baltic region managed to buck the trend of the broader M&A market. The region saw an increase in the value of M&A deals from 2012 and 2013, even while other European countries saw a decline, and there are plenty of indications that the growth in Baltic M&A is not a fleeting trend. The Baltic Innovation Fund (BIF), launched last year on behalf of the European Investment Fund (EIF), selected Baltcap and BPM Capital as its first two fund managers in 2013, paving the way for these regional buyout specialists to pursue more acquisitions in the near-term.

Deal volume in 2013 was also distributed more evenly across the three Baltic states than in previous years. Latvia, which typically trails behind Lithuania and Estonia in terms of M&A volume, is starting to account for a larger share of the region's M&A activity.

As far as specific sectors are concerned, Financial Services and TMT played an important part in boosting deal flow this year. Starman AS and Eesti Media, two major Baltic media companies, featured as targets in the year's largest M&A deals, as did Lithuanian bank AB Ukio Bankas and Latvian bank Norvik Banka JSC. In both the TMT and Financial Services sectors, high-profile deals have been indicative of broader trends, including the growing importance of foreign investors and increased activity on the part of local and international private equity firms.

The primary drivers behind M&A activity in 2013 are likely to stay firmly in place for the immediate future. As data from the past year clearly shows, both domestically and internationally the Baltic region is starting to be seen as a profitable and strategically important market. This, in turn, is likely to foster a more robust Baltic M&A environment in 2014, even as M&A among most other European countries suffers under the weight of economic uncertainty and stunted growth.

Dr Irmantas Norkus
Managing Partner
Lithuania

Guntars Zile
Partner
Latvia

Sven Papp
Partner
Estonia

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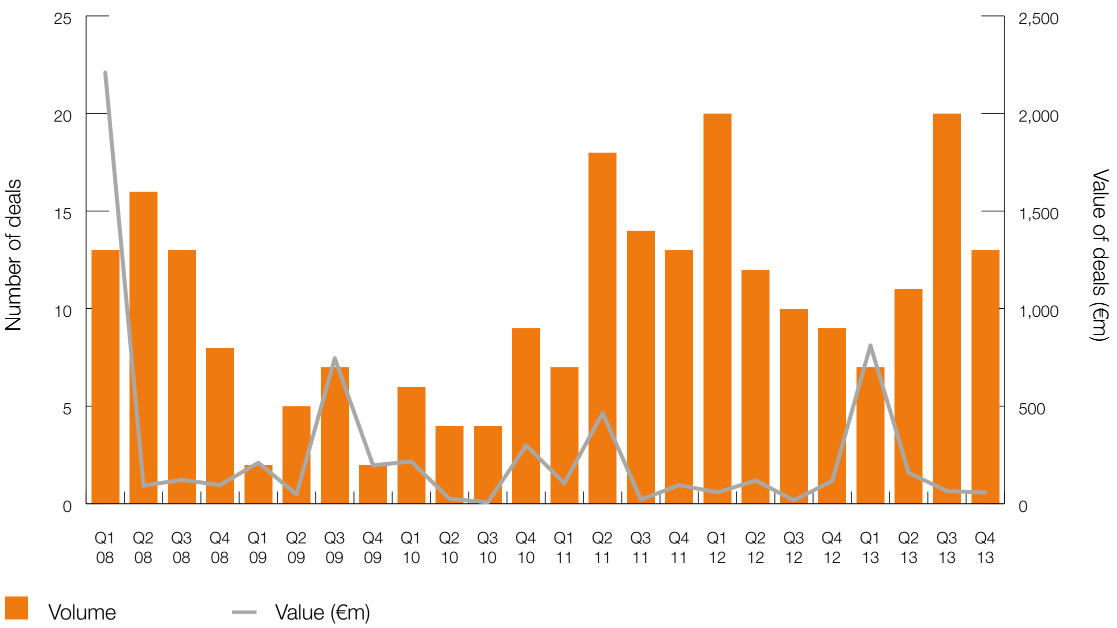
Overview

In 2013, there were 51 deals worth €1.1bn in the Baltic region (Estonia, Latvia and Lithuania), marking no change in volume and a more than four-fold increase in value from the 51 deals worth €311m in 2012. By contrast, M&A in Europe as a whole fell 12% from €527.3bn in 2012 to €463.8bn, while global M&A values fell 3.2% over the same period.

This year-and-year growth in Baltic M&A value hinged largely on the €782m investment into AB Ukio Bankas by Lithuanian bank Siauliu Bankas AB. The deal, which aims to strengthen the target's capital position and improve its overall financial standing, shows the importance of domestic restructuring among the Baltic regional banks (in this case Lithuania) to the wider M&A landscape this year.

The second largest deal of 2013 took place in the TMT sector, with East Capital Explorer AB acquiring a 51% stake in Starman AS, the Estonian internet and cable provider, for €84m. The deal was symptomatic of the continual consolidation and transformation taking place among Baltic media companies, and it also helps to demonstrate international investors' growing appetite for Baltic assets.

Baltic M&A, 2008-2013



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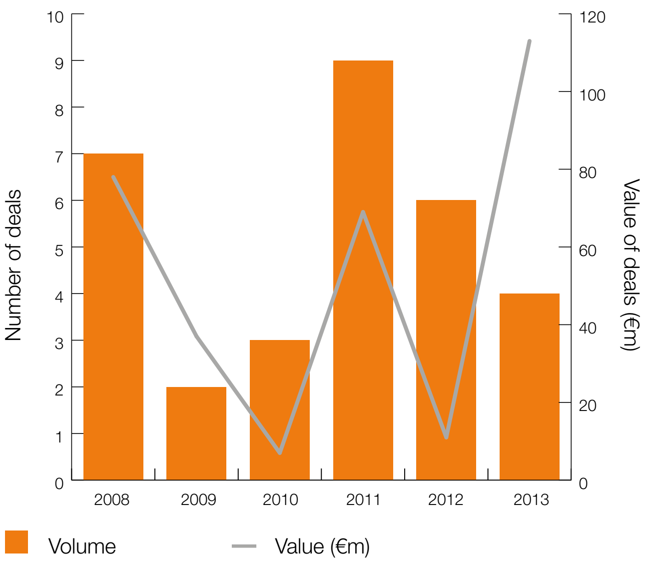
Despite large-scale acquisitions in the Financial Services and TMT sectors, 2013 did not necessarily herald the return of large-scale dealmaking. Indeed the majority of M&A deals had small (<€15m) or undisclosed values (41 or 80% of deals), in keeping with historical trends. M&A deals do appear to be creeping up in value, however, as deals in the €15m-€100m range (nine deals) outnumbered deals in the <€15m bracket (six deals) for the first time since 2008.

Perhaps one of the most pronounced features of the M&A market in 2013 is the growing importance of private equity firms. The year saw four buyouts worth €113m, marking a ten-fold increase in value against the €11m worth of buyouts announced in 2012. Private equity exits are following a similar trajectory: 2013 saw seven exits worth €84m, marking the highest peak in private equity exit volume since 2008, when this data set begins. (Exit value is still far from its 2011 peak, but in that year the €361m acquisition of private equity-backed Lithuanian pharmaceuticals group Sanitas AB by Canada-based Valeant caused a surge in M&A that naturally makes following years look weak by comparison.)

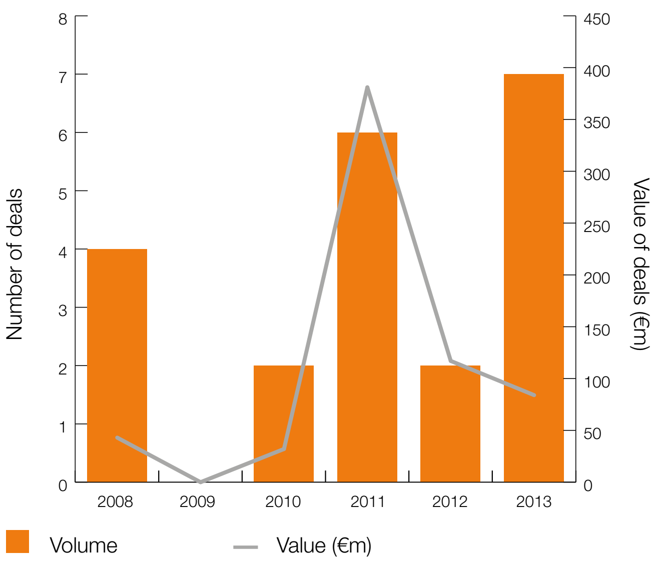
Looking more closely at private equity-backed M&A in 2013 shows that buyout firms have been active players on both the buy-side and the sell-side. The year's second-largest M&A deal was also the year's largest private equity exit: Swedish firm East Capital Explorer AB's acquisition of a 51% stake in Starman AS for €84m marked an exit on behalf of Bancroft Private Equity LLP, the Austria-based private equity group that paid €41m for a majority stake in the company in 2007. Thus, the Starman AS deal might be best understood as the latest in a string of deals in which strategic acquirers source their acquisitions from the portfolios of private equity firms (a case in point is the aforementioned €361m acquisition of Sanitas AB, a company that was backed by a variety of private equity firms including American firm Citi Venture Capital International and Luxembourg firm Amber Trust SCA).

Private equity firms have also been behind the scenes of more recent strategic M&A deals. Baltcom TV SIA, the Latvia-based cable broadcaster and a portfolio company of private equity groups Ardian (former AXA Private Equity, based in France), and Resource Partners (based in Poland),

Baltic Buyout Trends, 2008-2013



Baltic Exit Trends, 2008-2013



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last year acquired Latvia-based broadcaster and internet access provider IZZI COM SIA. The deal (value undisclosed) is part of an ongoing expansion effort on the part of Baltcom's private equity owners.

There are also more traditional buyouts taking place. The second largest buyout of 2013 saw US-based private equity group Clement Power Venture Inc. acquire UAB Kauno Termofikacijos Elektrine – the Lithuanian thermoelectric power station owned by Russian energy giant Gazprom OAO – for a consideration of €29m.

Private equity's increased involvement in the Baltic M&A market is important, because it coincides with state-backed initiatives that aim to grow the region's small to medium sized enterprises (SMEs) via private equity and venture capital financing. The Baltic Innovation Fund (BIF), launched by the European Investment Fund (EIF) in 2012 and based loosely on the successful Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative, made distributions to Baltcap and BPM Capital in 2013, signalling an uptick in Baltic private equity buyouts in the near-term and an increase in the number of attractive Baltic targets in the longer-term.

Top Baltic M&A Deals, 2013

Announced Date	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Seller Company	Deal Value (€m)
23/02/2013	AB Ukio Bankas (certain part of the assets, rights, transactions and liabilities)	Financial Services	Lithuania	Siauliu Bankas AB	Lithuania		782
03/05/2013	Starman AS (51% stake)	Internet/ ecommerce	Estonia	East Capital Explorer AB	Sweden	Bancroft Private Equity LLP	84
09/09/2013	AS Eesti Meedia	Media	Estonia	Mart Kadastik (private investor); Toomas Issak (private investor); Meelis Luht (private investor); Andres Kull (private investor); Margus Linnamae (private investor)	Estonia	Schibsted ASA	30
07/03/2013	UAB Kauno Termofikacijos Elektrine (99.5% stake)	Energy	Lithuania	Clement Power Venture Inc.	US	Gazprom OAO	29
19/12/2013	Norvik Banka JSC (50% stake)	Financial Services	Latvia	Grigory Guselnikov (private investor)	Russia		28
18/04/2013	JSC Biriu kroviniu terminalas (30% stake)	Transportation	Lithuania	JSC Belaruskali	Belarus	Udovitsky family	23
17/05/2013	JSC Snoro Lizingas	Financial Services	Lithuania	AS LHV Pank; Razfin UAB	Estonia		21
17/04/2013	SIA Rigas Universalais Terminals (80% stake)	Transportation	Latvia	Portek International Limited	Singapore		21
03/12/2013	Latvijas Nafta	Energy	Latvia	East – West Transit SIA	Latvia		18
31/08/2013	CJSC Goverlus (45.4% stake)	Transportation	Lithuania	Trust Carriage Company LLC	Ukraine	Energo-Mig Limited Liability Company	16

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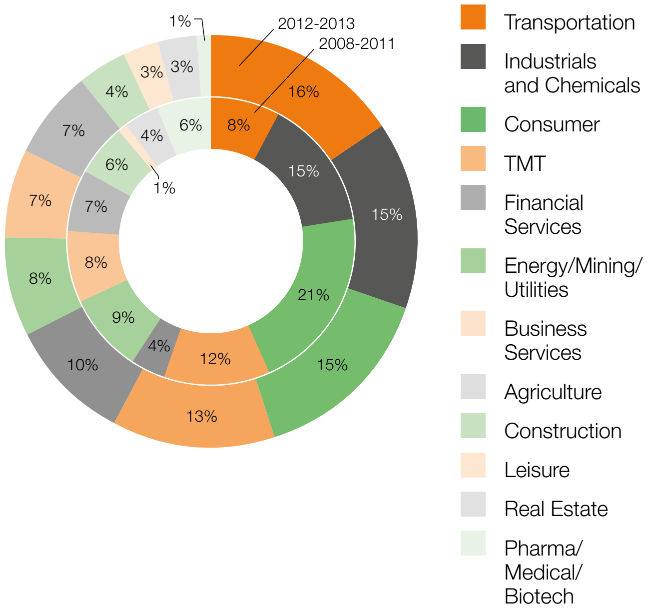
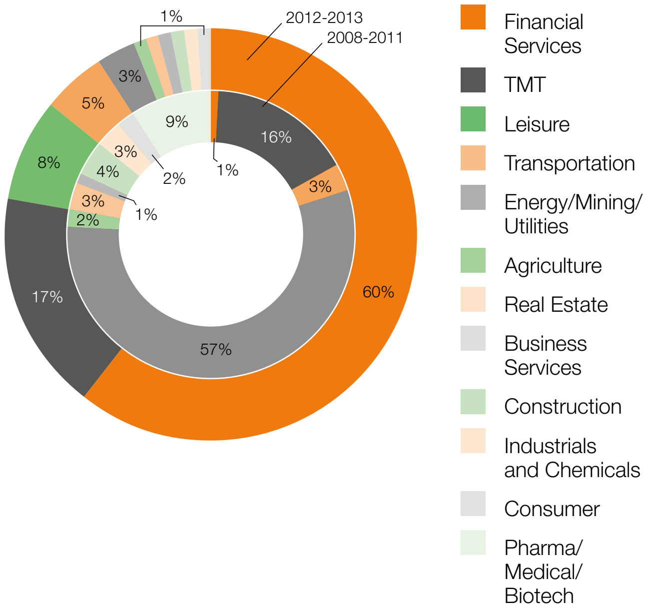
M&A Volume 2008-2013, Split by Sector



M&A Value 2008-2013, Split by Sector



Sectors

The largest Baltic M&A deals have come mainly from the Financial Services and TMT sectors, which accounted for 60% and 17% of aggregate deal value, respectively. The year marked an important shift in sector-specific deal flow, as the Financial Services sector has gradually become a more important hub for large-scale M&A than the Energy sector. The Energy sector's share of deal value declined from 57% in the 2008-2011 period to just 3% in the 2012-2013 period, while the share of Financial Services increased from 1% to 60%.

The apparent decline in Energy deal values is not surprising, as the sector generated an unusually high volume of privatisations and strategic deals since 2008: Lithuanian energy company LEO LT AB made €2.1bn worth of investments in Vakaru Skirstomieji Tinklai AB, Lietuvos Energija AB, Rytu Skirstomieji Tinklai AB and Orlen Lietuva, and the Government of Lithuania sold €1.5bn worth of energy assets.

The rising profile of Financial Services and TMT deals is also not surprising. Both sectors are experiencing significant structural changes – the former due to the development of digital media and the latter due to the after-effects of the financial crisis – and both have provided attractive targets to foreign investors looking to tap into the Baltic region's economic growth.

Financial Services

Financial Services M&A in 2013 has been driven by the restructuring of regional banks and by an influx of international, strategic investors. The year's largest banking deal – Siauliu Bankas AB's €782m investment into Ukio Bankas, the Lithuanian commercial bank – aimed to strengthen the capital base of Ukio, which filed for bankruptcy in 2013, and to stabilise the health of the broader Lithuanian financial sector. The 50% stake purchase (valued at €28m) of Latvia-based Norvik Banka JSC by Russian investor Grigory Guselnikov was likewise driven by efforts to improve the health and operating performance of the Latvian bank.

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Other banking deals have had a more international focus, highlighting international banks' desire to access the lucrative Baltic market by acquiring their competitors' non-core assets. Swedish bank Marginalen AB has been especially active in this respect. In 2013, it acquired Lithuania-based UAB General Financing from French bank Société Générale SA for an undisclosed amount and GE Money Latvia from the US-based financing company GE Capital Corporation for an undisclosed amount. Both deals provide insight into the strategic appeal of Baltic assets. UAB General Financing's credit portfolios are valued at approximately €45.8m (representing 70,000 customers).

TMT

Like Financial Services M&A, deal flow in the TMT sector has been fuelled by foreign companies' appetite for growth. But whereas other sectors' share of M&A value tends to fluctuate dramatically in response to one or two large deals, TMT has consistently accounted for a sizeable portion of the Baltic M&A market: since 2008, the sector has accounted for between 16% and 17% of M&A value and between 12% and 13% of volume.

The largest TMT deals of 2013 – the €84m sale of a majority stake in Starman AS and the €30m sale of AS Eesti Meedia, the Baltic region's largest media group with estimated €80m, to its management team by Norwegian owner Schibsted ASA – have exhibited the same underlying drivers of M&A more generally, including the importance of international investors and private equity firms in the sector's continual transformation.

The acquisition of Starman AS, backed by Austria-based Bancroft Private Equity LLP, is just one of many cross-border deals involving international strategic buyers. In May of 2012, for example, Swedish telecom company TeliaSonera AB paid €156.9m for a 31.71% stake in Lithuanian telecoms group TEO LT AB, which provides fixed voiced, internet, data communication, digital television and information technology services. A similar deal took place earlier in that year, in which Swedish telecom group Tele2 AB paid approximately €25.4m for Estonian telecoms group Televorgu AS in a deal that aimed to strengthen Tele2's presence in the Estonian market and expand its customer base.

The AS Eesti Meedia acquisition is part of a longer-lasting trend. Months before it announced its new management structure and changed its name to Baltic Media Group AS, AS Eesti Meedia announced its plans to acquire GES Group, the Czech and Estonian operations of Ireland-based media company Communicorp Group Limited for an undisclosed amount. And, shortly after Schibsted ASA sold the company, AS Eesti Meedia attempted to sell stakes in its newspaper/magazine distribution and publication businesses to AS Ekspress Grupp, the public Baltic media conglomerate. AS Eesti Meedia's stake sales ultimately lapsed, but they nevertheless demonstrate the knock-on effect that higher-profile M&A activity is likely to have on the wider M&A landscape.

Transportation

Another sector worth noting is the Transportation sector, which is generating a small but growing share of regional M&A activity. Comparing 2008-2011 to 2012-2013 shows the sector's share of M&A value increasing from 3% to 5%, and its share of M&A volume increasing from 8% to 16%.

The international theme of 2013 crops up again in the Transportation space, as international investors have been actively investing in Baltic transport and cargo hubs. Noteworthy deals include Belarus-based JSC Belaruskali's acquisition of a 30% stake in JSC Biriu kroviniu terminalas, the Lithuanian dry bulk cargo terminal operator, for €23m; the acquisition of an 80% stake in SIA Rigas Universalais Terminals, the Latvian bulk cargo handling company, by Singapore-based Portek International Limited (€21m); and the acquisition of a 45.4% stake (valued at approximately €16m) in CJSC Goverlus, a Lithuanian railway and vehicle cargo transport provider, by Ukraine-based Trust Carriage Company LLC.

Sector outlook

Looking ahead to 2014, Baltic M&A activity is likely to be spread somewhat evenly across a range of different sectors.

The Mergermarket Heat Chart, which tracks "company for sale stories" tracked in the past 12 months, suggests deal flow will be concentrated mainly in the Industrials and Chemicals sector, even though the sector has not been generating a significant amount of big-ticket deals. Most of the M&A taking place in the

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sector – which generated 15% of Baltic M&A volume between 2012 and 2013 – has come from the manufacturing subsector (as opposed to the chemicals and materials subsector) and deals have tended to be smaller in size.
Still, using 2013 activity as a guide, M&A will likely be driven by the same international appetite fuelling M&A elsewhere.

Nordic-based corporate buyers have been the most active acquirers in this sector. One of the year's largest deals was the €5m acquisition of a 30% stake in Konesco Ltd., the Estonia-based motor and electrical component manufacturer, by strategic acquirer Konecranes Finance Oy, a subsidiary of listed Finnish industrials group Konecranes Plc. Another Norway-based company, Contiga AS – a subsidiary of Norwegian construction group Kb Gruppen Kongsvinger AS that focuses mainly on concrete and steel manufacturing – acquired a 49% stake in SIA S.B.C., the Latvian metal design and installation company, for an undisclosed sum.

Behind the Industrials and Chemicals sector, the Consumer sector and the Energy/Mining/Utilities sector hold the most potential for M&A in the near future, while other mainstay sectors – TMT, Business Services, Leisure and Transportation – follow in third place.

Looking at the drivers of M&A across these separate, strictly-defined sectors suggests the underlying appeal of Baltic assets – no matter the sector – will come from the region's strong economic fundamentals.

Sector	Baltics
Industrials and Chemicals	12
Consumer	6
Energy/Mining/Utilities	6
TMT	3
Business Services	3
Leisure	3
Transportation	3
Financial Services	2
Pharma/Medical/Biotech	1
Agriculture	1
Grand Total	40

Hot
10
8
4
2
1
0
Cold

The Mergermarket Heat Chart is based on "company for sale" stories tracked by Mergermarket over 01/01/2013 to 31/12/2013. Deal opportunities are captured according to the dominant geography and sector of the target company.

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In the Leisure sector, high expectations of increased tourism have attracted international investors to regional Baltic businesses. 2013 saw Russian ticket operator Kassir.ru acquire Baltic Ticket Holdings AS – the Estonia based company that owns entertainment, sports, theatre and other event ticket distribution firms – from Estonian private equity LHV Capital for an undisclosed amount, about one year after Citigroup (through its Baltic Cruises Holding subsidiary) announced its acquisition of a 15.7% stake in Estonian ferry operator Tallink for €117m.

High hopes for consumer spending and economic growth have also been fuelling cross-border M&A in the Baltic retail space. In 2013, UK-based sportswear company Sports Direct International Plc acquired a 60% stake in Estonian sports retailer Sportland International Group AS for an undisclosed amount, while German cosmetics and jewellery retailer Douglas Holding AG acquired a 49% stake in Douglas Baltic, SIA, the Latvian cosmetics chain. Both deals aim to expand the acquiring company's presence internationally by tapping into the growth of the Baltic consumer market.

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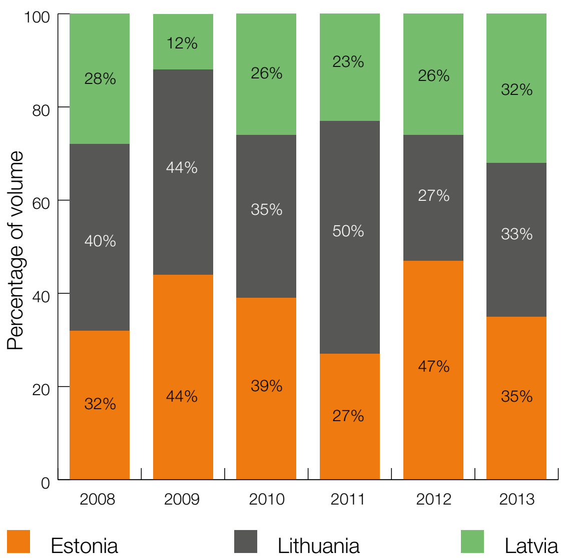
Countries

Each Baltic country's M&A market has behaved differently since 2008, as reflected in the dramatic fluctuations in M&A value and volume since then. Generally speaking, though, Lithuania tends to account for the lion's share of Baltic M&A value and 2013 was no different. The country generated €886m worth of M&A deals over the course of the year, while Estonia and Latvia generated €119m and €86m, respectively. (Lithuania's top position in 2013 stems almost entirely from the €782m acquisition of AB Ukio Bankas by Siauliu Bankas AB.)

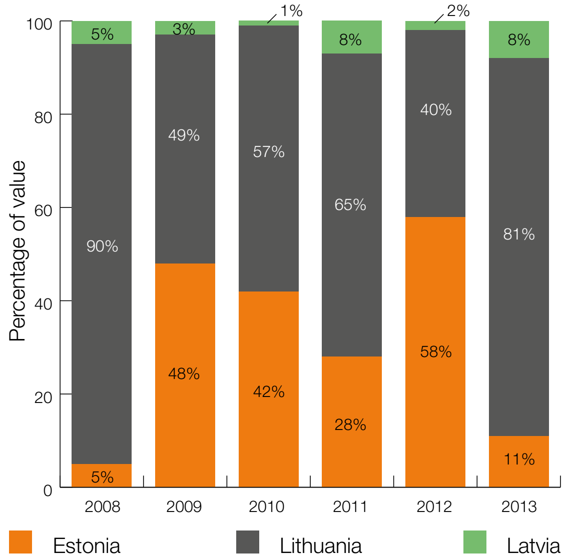
Looking strictly at the number of deals that took place in 2013, however, shows that deal volume across the three Baltic states is starting to even out despite wide disparities in value. In 2013, Estonia (35%), Lithuania (33%) and Latvia (32%) each accounted for close to one-third of M&A volume in the Baltic region, marking a shift from the 2011-2012 period, when 47% of all announced deals came from Estonia.

Looking more closely at recent Latvian M&A shows that international investors are increasingly recognising the country's strong growth potential. Singapore-based Portek International, which invested €21m into SIA Rigas Universalais Terminals this year, described the target as an integral part of its portfolio. Likewise, the 50% stake purchase (valued at €28m) of Norvik Banka JSC by Russian investor Grigory Guselnikov, can be read as a vote of confidence in the country's long-term prospects.

M&A Trends Split by Geography Volume, 2008-2013



M&A Trends Split by Geography Value, 2008-2013



Outlook

On the whole, the evening-out of deal volume across the Baltic region shows that international and domestic investors are increasingly seeing the region as a hub for smaller, high-growth targets. Whereas historical M&A deals have tended to be dominated by large international corporate buyers – the region is arguably best known for the €6bn acquisition of Estonia-founded (but Luxembourg-based) internet communications company Skype by Microsoft Corporation, and the €361m acquisition of Lithuanian pharmaceuticals group Sanitas AB by Canada-based Valeant – more recent deal flow suggests M&A over the course of the next year will be driven mainly by smaller deals, stake purchases and private equity buyouts. The distribution of BIF financing in 2013 signals the increasing role of regional buyout shops, whilst recent strategic M&A – especially in the Financial Services, TMT and Transportation sectors – suggests corporate buyers will continue to turn their attention to the Baltic region for growth opportunities at a time when such opportunities are sorely lacking in other markets.

About Raidla Lejins & Norcous

Raidla Lejins & Norcous is a leading pan-Baltic provider of legal services with independent offices in Vilnius, Riga, Tallinn and Minsk. With a total staff of 155 professionals, of whom over 120 are lawyers, it renders comprehensive legal services to local, regional and international legal entities, including multinational enterprises, international banks and financial institutions.

Raidla Lejins & Norcous has a well-developed network of relationships with leading law firms both in the West and in the East. The firm is a member of Ius Laboris, the leading global alliance of labour and employment law practitioners with 2,500 lawyers specialising in all areas of law relating to human resources.

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In the annual Financial Times/Mergermarket European M&A Awards held in London in December 2013 Raidla Lejins & Norcous was awarded the distinction of the Legal Adviser of the Year in the Baltics.

Contacts

Dr Irmantas Norkus
Managing Partner
Raidla Lejins & Norcous, Lithuania
T. +370 5250 0800
E. irmantas.norkus@rln.lt

Elijus Burgis
Partner
Raidla Lejins & Norcous, Lithuania
T. +370 5250 0800
E. elijus.burgis@rln.lt

Guntars Zile
Partner
Raidla Lejins & Norcous, Latvia
T. +371 6724 0689
E. guntars.zile@rln.lv

Sven Papp
Partner
Raidla Lejins & Norcous, Estonia
T. +372 6407 170
E. sven.papp@rln.ee

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Contact

Jeanne Gautron
Publisher
T. +44 20 7059 6262
E. Jeanne.Gautron@mergermarket.com