PRUDENTIA M&A FOLIO

BALTIC M&A OVERVIEW

January – June, 2018

Deal Overview

M&A industry has been active in the first six months of 2018. During this period 137 M&A deals were announced, in which at least one of the deal participants has represented Baltic country. To compare, Baltic M&A industry has been by 23% more active than in the previous year's first six months, which corresponds to an increase by 26 deals. In the previous Prudentia M&A Folios it was mentioned that the M&A industry in 2017 was highly active and record-high amount of deals were announced. If this year's Baltic M&A sector remains the same pace until the end of the year, then Baltic M&A deal count will see its fifth consecutive year of growth. The least active month was May (2 M&A deals), but surprisingly the most active period was the beginning of summer holiday season – June – with 35 M&A deals announced.

The global M&A trend has been similar to one in the Baltics. The total value of global M&A deals has reached 1.9 trillion USD during the first six months of 2018 (38% of all deals were cross-border), hence this half-year has been the most active in the post-crisis period. The only two regions with negative growth in total value of M&A deals were Africa and the Middle East (-28% compared to previous year). At the same time, North America, South America, Europe and Asia and Pacific recorded an increase of M&A deal value by 30%, 62%, 27% and 33%, respectively. Energy, mining and utilities were the most represented industries by targets in the global M&A market.

Notable Transactions

In the first six months of 2018, 28 M&A deals in the Baltic had their values disclosed and reached an aggregate value of 976.3 million EUR. The total value of three largest deals represented approximately 70% of the total Baltic M&A deal value.

Selected Baltic M&A deals, first six months of 2018*

Target Company (Country)	Investor (Country)	Deal value (million EUR)
Nelja Energia AS (Estonia)	Enefit Green AS (Estonia)	289
Olympic Entertainment Group AS (Estonia)	Odyssey Europe AS (Estonia)	261.8
Ozantis UAB** (Lithuania)	NEPI Rockcastle plc (Isle of Man)	124.6
Timber processing company from Latvia, Estonia and the UK***	Bergs Timber AB (Sweden)	90.6
Magnetic MRO AS (Estonia)	Hong Kong Hangxin Aviation Technology Co. (China)	43.4
Accumulated value of publicly available deal values for the first six months of 2018:		**976.3**

**NB: the table includes only deals with publicly available transaction value.*
***Ozantis UAB is shareholder of Ozas shopping and entertainment center in Vilnius.*
****SIA Vika Wood and BYKO-LAT SIA from Latvia, AS Laesti and Aktsiaselts EWP from Estonia and Continental Wood Products Ltd. from the UK.*

The most notable deal in respect of total M&A value in the first six months of 2018 was announced in Estonia, where Enefit Green acquired Nelja Energia (renewable energy producer) from Vardar Eurus for 289 million EUR, additionally taking over 204 million EUR of debt held by Nelja Energia. Enefit Green, which is a subsidiary of Eesti Energia (owned by the state of Estonia), is one of the largest producer of renewable energy in Estonia. It is assumed, that the company will increase its renewable electricity-production capacity from 0.4 TWh to more than 1 TWh. According to several media sources, Enefit Green plans to participate in an initial public offering (IPO) of minority stake in the Nasdaq Tallinn Stock Exchange. Therefore, the acquisition of Nelja Energia seems like a strategic move by Enefit Green in order to increase its potential IPO valuation.

Civinity, an international real-estate facility management, maintenance, and operations company, has been particularly notable regarding its activity in the M&A market. In the first six months of 2018 the company announced four acquisitions. The company acquired VBS serviss (Latvia) and ALG Cleaning (Latvia), and announced the entry in engineering systems design market via acquisitions of Statiniu priežjūra (Lithuania) and Dizaja (Lithuania).

Geographical Distribution

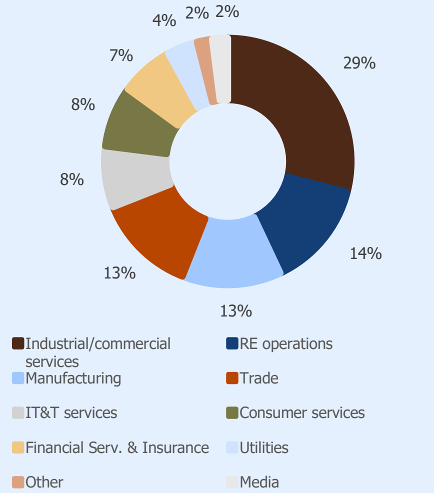
In the first half of 2018 M&A deals were announced mainly within Baltic countries, corresponding to 54% of all publicly announced M&A deals. In same country M&A deals Estonia has appeared the most with 32 announced deals, 24 deals were present in Lithuania and only 7 deals in Latvia. However, Latvian targets particularly were the most attractive in the eyes of foreign investors. In 15 M&A deals Latvian companies were acquired by investors outside the Baltic region, in Lithuania and Estonia these kind of deals were announced 12 and 8 times, respectively.

Industry and Investor Overview

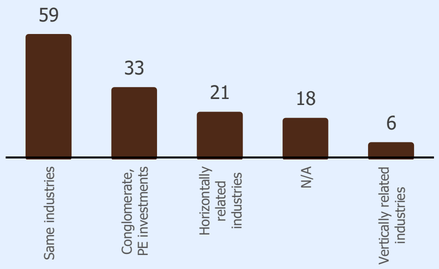
Companies from industrial and commercial service industry have been the most frequent targets in the first half of 2018. It is not surprising, since in last five Prudentia M&A Folios this industry particularly has been the most popular, where targets represented it on average in 25% of all announced M&A deals. Similar conclusion can be made about investors. After summarizing recent results of Prudentia M&A Folios it becomes clear that strategic investors dominate in the Baltic M&A market with an annual average of 70% of all deals.

World and Europe M&A deal multiples continue to grow, and probably because of that we can observe a development of M&A deal count and aggregate deal values both globally and in Europe. This truly is a good moment to consider the sale of a company or to attract an investor to finance company's development options with more favorable deal terms.

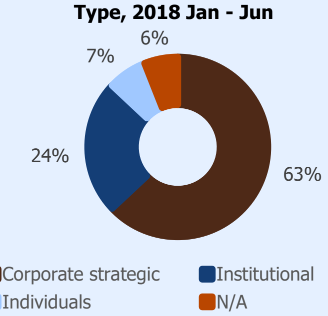
Breakdown of Deal Count by Industry of Target Companies, 2018 Jan - Jun



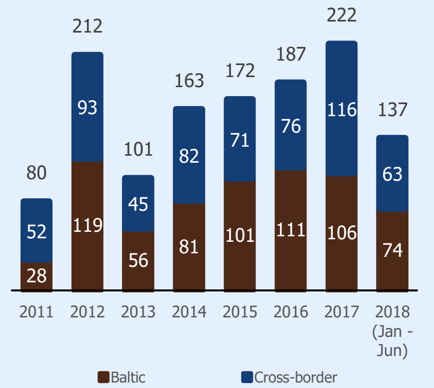
Breakdown of Deal Count by Relatedeness of the Acquirer and Target, 2018 Jan - Jun



Percentage Breakdown of Investor Type, 2018 Jan - Jun



Breakdown of Deal Count by Geographic Orientation of the Transaction, 2011 - 2018 Jun



Sources: S&P Capital IQ database, Advisors' homepages, Mergermarket, PitchBook, Baltic competition authorities, Thomson Reuters.

According to publicly available information, all announced M&A, PE, selected VC and selected real estate deals in Baltics in the corresponding time period are reviewed in this report.

Management Buy-Out (MBO) deals

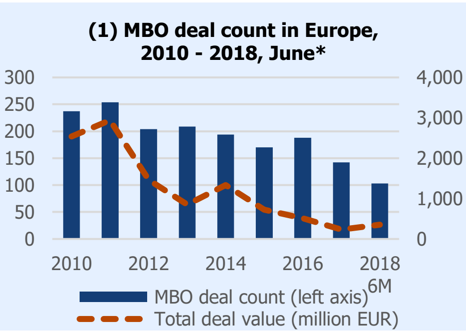
M&A deals, where company's management buys stake in this respective company, are classified as management buy-out (MBO). Mostly, these deals are financed through debt and/or by private equity funds. In Prudentia's M&A Folio industry expertise part we examine MBO deals in-depth in both Baltic and global context. According to publicly announced deals it can be concluded that MBO deals in the Baltic region in the past few years have been announced on annual basis. Even though MBO deals are announced less often than traditional M&A deals, in relevant circumstances MBO option might be the most appropriate one both for buyers and sellers. The table below summarizes key historic factors to perform MBO deals:

Management remuneration
Non-disclosure of information
Management competence
Simpler and shorter process
Facilitated due diligence process
Other

Listed factors in each MBO deal can be different due to certain company's and industry's specifics, the importance of management team, size of the deal, access to funding, as well as other fundamental factors.

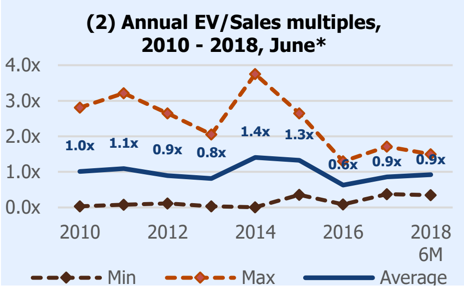
MBO deals in Europe

First graph illustrates the annual count of MBO deals in Europe, as well as the sum of publicly available deal values.



According to S&P Capital IQ data, the total count of MBO deals and their value since 2010 have experienced a decline. As one of the potential reasons for downward MBO trend in Europe could be the popularity of "classic" M&A deals. Statistics provided by PitchBook suggest that since 2010 the count of M&A deals, as well as the total deal value and average EV/EBITDA multiples have recorded an increase. To compare, average EV/EBITDA multiple stood at x4.7 in 2010, whereas average EV/EBITDA multiple in 2017 has reached x7.5. It is possible that the intensive growth of recent year target valuations have discouraged company's management to participate in MBO deals, since MBO deals usually are realized with lower transaction values.

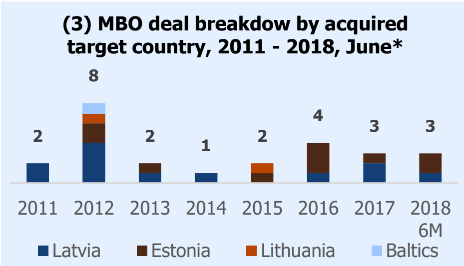
Second graph summarizes publicly announced MBO deal EV/Sales multiples from the beginning of 2010 to June, 2018. Graph shows that the MBO deal average EV/Sales multiple is approximately x1.0 during respective period. In addition, the difference between MBO deal multiple maximum and minimum has significantly decreased during past few years.



If the current pace of 2018 continues, it is likely that the total count of MBO deals by the end of 2018 could stand at unusually high level. Already in first six months of 2018 103 MBO deals were announced, which already takes up 73% and 55% of total European MBO deals in 2017 and 2016, respectively.

Baltic MBO experience

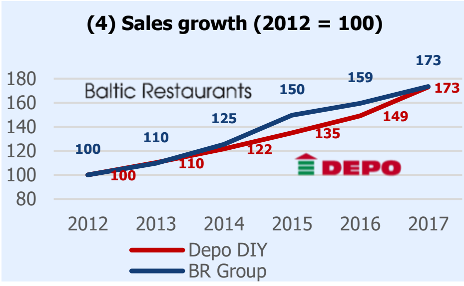
Occasionally MBO deals are also announced in the Baltics, even though MBO deals hold a minor part among all Baltic M&A deals. Graph three shows the count of closed MBO deals from 2011 to June, 2018. Most of the MBO deals were announced in Latvia – 12 MBO's, followed by Estonia and Lithuania with 10 and 2 MBO deals, respectively. In addition, annual Baltic MBO data suggests that not every year a certain Baltic country announces a MBO deal.



In 2018 a noteworthy MBO deal in Latvia was announced, where an international investment company Kartesia alongside with **Groglass** management acquired **Groglass** from international fund NCH Capital. This was the first deal for Kartesia in the Baltic States, who provided 50 million EUR capital to finance the transaction. Additionally, SEB bank provided 10 million EUR long-term loan and another 3 million EUR for **Groglass** working capital. Today **Groglass**, founded in 2004, is one of the world's leading developers and manufacturers of anti-reflective and other high-performance coatings on glass. In the last 5 years **Groglass** revenue has grown by approximately 17% CAGR (revenue in 2017 was approximately 17 million EUR). Last year private equity fund Livonia Partners alongside with the management of leading provider of network and IT security solutions in the Baltics – **Santa Monica Networks** – announced the management takeover of **Santa Monica Networks** branches in Latvia and Lithuania. In a related deal, Elisa Corporation from Finland announced the acquisition of **Santa Monica Networks** branch in Estonia. Year 2016 was notable for mezzanine financing provider BPM Capital, who financed its first MBO deal. BPM Capital provided funds to the management of IT procurement consultancy company – **MarkIT** – in a MBO deal. The management acquired 30.6% stake in **MarkIT** from Ambient Sound Investments (ASI) for 5.8 million EUR. In 2006 ASI, own-capital investment fund established by four engineers from Skype, acquired this stake for 2 million EUR. In the same year not long after **MarkIT** deal BPM Capital provided financing for the leading optics company in the Baltics **Optometrijas Centrs** MBO deal.

MBO success stories

From all Baltic MBO deals there are two particularly exceptional deals – **Depo DIY** and **Fazer Amica**. Revenue growth for both companies is shown in the fourth graph.



Since **Depo DIY** MBO, which took place in 2012, the company has significantly improved its performance. **Depo DIY** consolidated revenue in 2017 was 238.3 million EUR, which is an increase of 73% compared to year when the MBO took place. Year 2018 has been very essential for the group – by far the largest Depo shop opened its doors in Vilnius, which will be a significant element for future growth of the company. So far, the company's successful business experience has also allowed it to rank in the TOP 101 of Latvia's Most Valuable Enterprises organized by Prudentia and Nasdaq Riga. Last year **Depo DIY** ranked 40th with an enterprise value of 114.6 million EUR.

Another successful MBO example in the Baltic States was the MBO of **Fazer Amica** Latvian and Estonian business (currently known as **BR Group**) in 2011. The company is one of the Baltics leading provider of catering services in various schools and universities, offices and government facilities, reaching its consolidated revenue of 28 million EUR in 2017. **BR Group** operates various catering brands such as Daily, Daily Special, Take Off, Chat (brand established in 2017) and Subway. According to group's website it can be concluded that the company is a particularly essential player in catering business for Estonian and Latvian schools and universities with 51 and 52 operating canteens, respectively.

Now it is more than just an adequate period to initiate MBO deals given the very prosperous macroeconomic situation, long-expected low EURIBOR rate in the future, as well as high appetite of venture capitalists to finance MBO deals.

**Data is compiled from S&P Capital IQ database and public media. In transactions where input data is available, estimates are made manually. The total transaction value does not reflect only the acquisition value by the management, but the total transaction value. In deals where less than 100% shares are acquired, EV/Sales is calculated by assuming that the value of one share of this respective deal would be identical also in a deal where 100% of shares are acquired (implied EV/Sales).*

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