

Deal overview

The Baltic merger and acquisition (M&A) activity has been positive in 2016. In total 186 Baltic M&A deals were announced in 2016, which is 13 deals or 7.5% more compared to 2015. The increase of M&A deal activity in 2016 is not surprising since such a positive end of the year was forecasted in the previous Prudentia M&A FOLIO.

Considering historic transactions it can be concluded that the Baltic M&A market has an annual upward trend in terms of deal count. Furthermore, since 2013 Baltic M&A deal count has been growing by 22.6% annually (compound annual growth rate). With such a growth pace it can be expected that year 2017 has a potential to outperform the very successful 2012 when 212 Baltic M&A deals were announced.

Global M&A market in 2016 was diverse among different regions. The largest markets, in terms of total deal value, USA together with Canada and Europe (global market share 47.5% and 24.6%, respectively) ended 2016 negatively – a decrease in both total deal count and value. Japan in 2016 has been the only region, separated in the report by Mergermarket, with growth in deal value (2.1%) and count (5.9%). It is worth mentioning that an unusually high M&A deal value growth in 2016 was in Africa and Middle East, which increased by 93.4%. Experts are cautious in forecasting M&A intensity in 2017, taking into account ambiguities connected with UK withdrawal from the EU or *Brexit*, Donald Trump becoming a US president, as well as upcoming presidential elections in France and Germany.

Largest deals by value in 2016

In 2016 50 Baltic M&A deals had publicly available value, which accumulated up to approximately 1.4 B EUR.

Largest Baltic M&A Transactions in 2016*

Target Company (Country)	Acquirer (Country)	Deal Value (M EUR)
"Akropolis" shopping center** (Lithuania)	Vilniaus Prekyba UAB (Lithuania)	>400
UAB Palink (Lithuania)	ICA Gruppen AB (Sweden)	213
AS Starman (Estonia)	Elisa Oyj (Finland)	151
airBaltic*** (Latvia)	Latvian State and a private investor	131.1
AS Latvijas Gāze**** (Latvia)	Marguerite Fund (Luxembourg)	115

Accumulated sum of publicly available deal values in 2016: **1 412.6**

*NB: Table includes only deals with publicly available transaction values.
 **3 companies were acquired, which control 3 "Akropolis" shopping centers and other real estate assets. This is an internal group transaction.
 ***Deal was closed in this period. In the result German investor Ralf-Dieter Montag-Girmes invested 51.1 M EUR and Latvian State 80 M EUR.
 ****From Uniper financial report it can be concluded that the deal value stands between 50 and 140 M EUR interval. In Latvian media the value of this deal was proposed to be approximately 115 M EUR.

Very extensive M&A deal was announced at the end of 2016 when the Rimi Baltic parent ICA Gruppen announced their acquisition of Lithuanian UAB Palink for 213 M EUR. UAB Palink, which represents 230 IKI shops, is the second largest food retailer in Lithuania with an approximate market share of 15%. After deal

completion Rimi market share in Lithuania is estimated to be 23%, as well as annual 15 M EUR cost synergies fully recognized starting from 2020. Taking into account financial metrics of UAB Palink and the value of this deal, the following exit multiples outline: 0.3x revenue and 6.1x EBITDA multiples. Already at the beginning of this year we emphasized that a consolidation in the Baltic retail sector can be anticipated due to its specific conjuncture. This deal together with SIA Firma Madara 89 ģpašumi acquisition of 31 Elvi stores indicate that the battle for being a leader in the Baltic retail sector continues. Another significant M&A deal was Polaris Invest and Com Holding sale of their Starman shares to Elisa for 151 M EUR, which translates into 8.4x target 2015 EBITDA multiple.

Geographical distribution

As usual, local M&A deals (i.e. within one of the Baltic countries) dominated the market. In 2016, 89 transactions had target and acquirer representing the same Baltic country, which is by 9 transactions more compared to 2015. Furthermore, M&A transaction count, when each side of the deal comes from a different Baltic country, in 2015 and 2016 kept almost unchanged – 21 and 22, respectively.

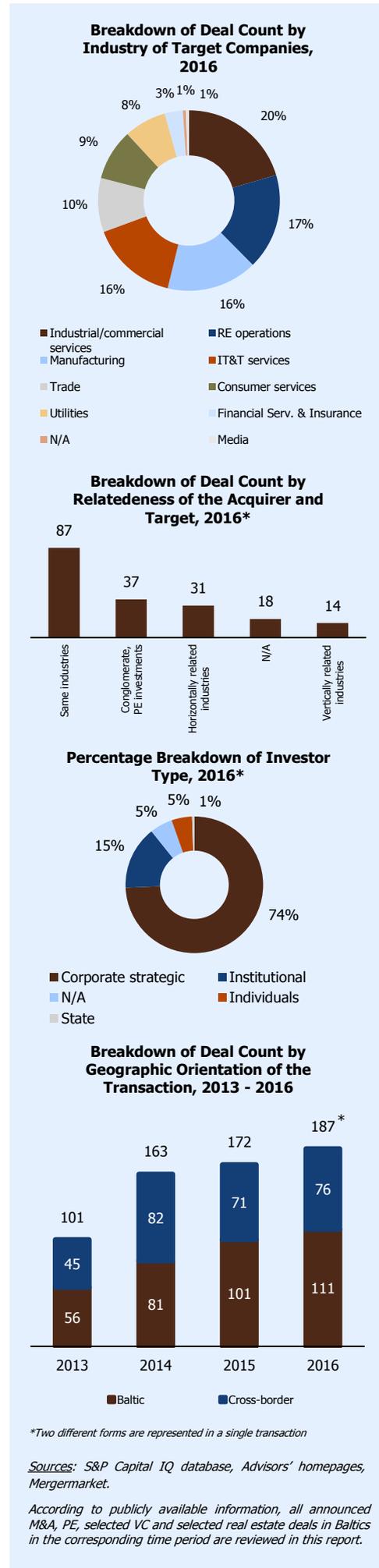
Estonian activity in 2016 must be emphasized. Estonians being a target appeared 71 times, but Latvia and Lithuania only 44 and 48 times, respectively. If deals are analyzed where target and acquirer represents a different country, Estonians again highlight themselves. In 29 M&A deals an Estonian company was acquired by a company coming from different country. In Latvia and Lithuania such deals were announced 21 and 15 times, respectively. In many previous periods it can be observed that the Baltic M&A intensity does not correlate with the absolute size of each economy, besides Estonians repeatedly have affirmed their relatively higher attractiveness in the eyes of investors.

Industry distribution

Companies from industrial and commercial services sector have been the most popular targets taking up 20% of all Baltic M&A deals. In 2015 this sector covered only 14% of all announced Baltic deals. In previous Prudentia M&A FOLIO real estate sector dominated among target industries when many shopping centers were acquired, but at the end of 2016 real estate sector is the second most popular target industry with 17% fraction, which is almost identical as last year (18%). It can be concluded that in both previously mentioned industries as well as in manufacturing Baltic M&A transactions are announced most frequently.

2017

Also the Baltic M&A market in 2017 is rather ambiguous, which partly can be explained by previously listed political factors. On the other hand, this year we will probably see two large in size transactions – exit of few shareholders from Latvijas Gāze unbundled company Conexus Baltic Grid and the sale of Modern Times Group (MTG) Baltic business.



Bayer and Monsanto merger

Starting from May, 2016 occasionally in the public media announcements were made on the merger of German pharmaceutical and agriculture product manufacturer Bayer and American agrochemical and agriculture product manufacturer Monsanto. Announcements consisted of Bayer bidding prices for Monsanto shares, market speculations for global power of merged company, creation of dominant position and other issues related with the deal.

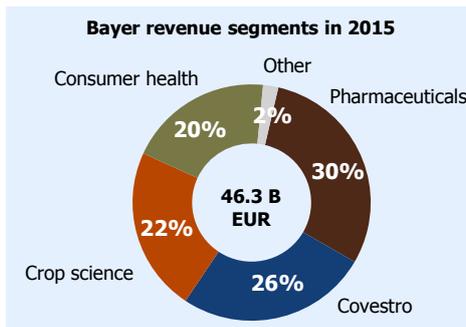
Bayer will acquire approximately 438 M Monsanto shares for 56 B USD. This translates in Monsanto share price of 128 USD, which is significantly higher than the quoted price. Moreover, taking into account effective option contracts and creditor claims, the total enterprise value of Monsanto is approximately 65.7 B USD. Based on the transaction value it gives 17.6x EBITDA and 4.7x revenue multiples. Despite the fact that in the announcement day bidding price was 35% more than the quoted price, at the beginning of 2016 an alternative deal was announced, where the investor was willing to enter this deal with even a higher multiple. This transaction was Syngenta AG acquisition of China National Chemical Corporation for 46 B USD, which results in 18x EBITDA multiple.

Bayer and Monsanto merger in terms of deal value is the second largest globally in 2016. This transaction is overtaken only by AT&T acquisition of Time Warner for 108.7 B USD.



Bayer description

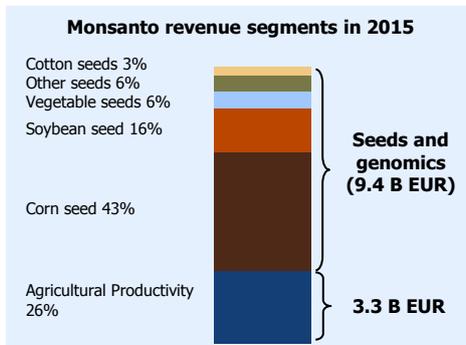
German Bayer is a life science company, which operates in 77 countries and 4 different segments: pharmaceuticals (prescription products), Covestro (material science), consumer health (generics and veterinary medicine) and crop science. Since 2015 Covestro was spun off from Bayer as a separate entity (quoted in Frankfurt exchange), maintaining the control of the company. The reason for this spin off was the relatively low profit margin (10% in 2014), thus diminishing potential share value of the group.



Bayer strengthens its position in the market via both organic growth and participating in M&A transactions. For example, in 2015 Bayer devoted 4.3 B EUR for research and development (R&D), which was 21% more compared to 2014. If M&A activity is considered, then Bayer has been an acquirer 6 times since 2014, besides 4 of these deals were announced in 2016. The description of each acquired company indicates that Bayer is willing to consider M&A deals among all its operating segments.

Monsanto description

American Monsanto, which operates in 69 countries, provide agriculture products for farmers ensuring higher productivity, decreasing their agriculture expenditures and providing efficiency in growing food for humans and animals. Utilizing Monsanto seeds (corn, cotton, various vegetables, etc.) bring higher yields from agriculture land plots, at the same time consuming lesser natural resources such as water and energy.



Also Monsanto, in order to partially ensure their growth and market positions, actively participates in R&D programs. Going back 6 years in history of Monsanto it can be seen that the company has a stable internal R&D policy established – during all these years respective expenses have been 11% relative to revenues, besides in the last year these costs amounted to approximately 1.4 B EUR. Also Monsanto plays investor role in M&A deals, for example, in 2013 alone they participated in 6 acquisitions.

Forecasted result of the merger

If the involved competition councils will affirm this merger to be non-harmful to competition (many analysts have forecasted a 50% likelihood for this deal to be accepted), then a new company will be established, which will be

the largest seed supplier in the world and a pioneer in agricultural biotechnology. The compiled data by Bloomberg accentuates that in 2009 approximately 54% of the world's agriculture seed and biotechnology market was controlled by four largest companies, which had developed their market shares via M&As in the last two decades. It can be concluded that in the last twenty years this market has sharply changed, taking into account the fact that in 1994 four largest companies owned only 21% of this market. Also the forecasted financial results of the merged company are positively estimated – growth of earnings per share for Bayer shareholders already in the first year and a double digit growth at the end of the third year. 1.5 B USD EBITDA growth after the third year due to created synergy effect, as well as additional synergies from future business solutions. The merged company will continue previously mentioned R&D expenses to set high – 2.5 B EUR, which is approximately 11% of Monsanto and Bayer combined seed segment revenues.

There is no doubt that the created consequences will be felt by agriculture sector, besides the direction of this effect is quite contradictory due to many different scenario speculations. Bayer and Monsanto state that the farmers will be net beneficiaries, who will be provided with a new and vast seed portfolio and specifically adapted solutions for operating geographies. An emphasis is also put on the development of digital agriculture, which would allow farmers to optimize required resources and at the same time guaranteeing the highest plant yields. Very recently, there was also a Baltic M&A transaction announced in this segment – Monsanto subsidiary The Climate Corporation acquired Estonian VitalFields in November 2016. The company provides management software for the European farms. There are also many concerns expressed by the Bayer and Monsanto deal opponents – increasing food prices, extinction of bees and other various insects, food system dependency of fewer specific type seeds and a negative influence on human health.

State Plant Protection Service indicates that in Latvia there is not a single registered farmer who is growing genetically modified food. Furthermore, in the EU there are significant restrictions in growing genetically modified food, therefore a direct impact of this merger on the Baltic agriculture sector is not anticipated. But, if Monsanto seed demand is positively affected, then the Baltic companies exporting seeds should be aware of a potential demand decrease from third countries. Thus, in order to ensure a market position both on a local and European level, Baltic companies from seed industry should critically assess their existing strategies.

Even though the Bayer and Monsanto merger is announced, it does not mean that we will see a guaranteed closing of this deal, because the approval for the newly established company must be submitted by approximately 30 jurisdictions from all over the world.

The most important Prudentia activities in 2016

In addition to active engagements for many new projects in the Baltics, based on Prudentia initiative approximately 100 bankers from 23 countries on November 3 and 4, 2016 came to Riga within the framework of Global M&A (partnership of independent investment banking firms) conference. Prudentia is a member of Global M&A since 2007 representing the Baltic region. The membership in Global M&A brings an opportunity to identify potential deal partners (e.g. strategic investors, companies for sale in foreign geographies) also for a Baltic M&As in a very prompt and effective manner. In the hands of this organization there are concentrated resources, which offer an in depth worldwide experience and contacts among various industries. Therefore, close and purposeful cooperation within Global M&A, exchange of industry knowledge around the world and personal relationships is the foundation of Prudentia's professional performance.



Photo: GMA

"As a member of Global M&A association for almost 10 years we have an honor to invite the world's leading representatives of M&A industry to Riga. We have always positioned Riga as the region's center of transactions, and the expressed interest by these companies about Latvia and the Baltic region emphasizes that this market is attractive for foreign professional investors", comments Kārlis Krastiņš, Managing Partner of Prudentia.



Photo: GMA

During the conference a significant attention was devoted to sectors of Latvia's economy

such as health care, industrials, consumer goods and energy sector. The discussions on these sectors acknowledged the international interest about the Baltic region and its companies.

One of the most active conference topics was about energy sector. The planned market liberalization of gas industry in 2017 and AS Latvijas gāze unbundling attracted an essential interest from international investors.



Photo: GMA

Market assessment

In March 2016 Prudentia together with Nasdaq Riga invited representatives of Latvian largest companies and industry experts to TOP 101 Morning debates. This time the main discussion aim was to encourage debates about the future of Latvian milk processing sector, as well as find an answer on if and how the Latvian milk processing companies could compete in the global market. Discussions were also held on the influencing factors of milk industry and a potential consolidation, M&A trends in food processing industry and other current events. The special guest in the debates was Normunds Staņēvičs, chairman of the board in AS Rīgas piena kombināts (part of Food Union), who shared company's export development plans and the necessity of reorientation to high value added products.



Photo: Aivars Liepiņš, F64

As tradition in October Prudentia together with Nasdaq Riga presented to society TOP 101 Latvia's and TOP 10 Baltic most valuable enterprises. The minister of economics Arvils Ašeradens honored the ceremony with his participation. The ceremony gathered Latvian and the Baltics most valuable enterprise managers, financial sector experts and social opinion leaders.



Photo: Aivars Liepiņš, F64

In order to promote understanding, discussion and cooperation in the financial technology sector, the awarding of the most valuable enterprises was followed by public debate: FinTech - threat or opportunity for the value of banks. During the debate, industry leaders and FinTech experts discussed the challenges of the banking sector and the ability to adapt to rapid development trends in financial technologies and the impact it may have on the business value.



Photo: Aivars Liepiņš, F64

Social contributions

To continue the realization of projects that increase the education level of the society, already for the second time Prudentia organized an M&A lecture course for students from Stockholm School of Economics in Riga, sharing the practical experience in the M&A sphere.



Photo: IM

Also continuing its cooperation with "Iespējamā misija" foundation, Prudentia supported "Inspire to learn" project, under which Prudentia chairman of the board Kārlis Krastiņš conducted a lesson for Mārupes 8th high school pupils.

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