

**Deal Overview**

In terms of Mergers and Acquisitions (M&A) transactions in the Baltic States, 2015 has ended with a positive trend. The number of transactions in the Baltic countries amounted to 173, an increase by 10 transactions (or 6%) compared to the last year.

This trend can also be seen elsewhere in the world, where already in early December, year 2015 became the biggest M&A year ever - surpassing even the peak of the economic boom in 2007 by 16.6% and ranking about 30% above the 2014 result.

Although due to the complex geopolitical situation, 2015 in the Baltic M&A market started rather slowly with 50 announced transactions in the first four months of 2015, the deal count continued to grow, reaching 64 transactions in the final quarter. The highest number of transactions was consequently recorded in December.

**Largest Deals by Value in 2015**

Largest Baltic M&A Transactions in 2015*		
Target Company (Country)	Acquirer (Country)	Deal Value (M EUR)
Omnitel UAB (Lithuania)	TeliaSonera (Sweden)	220
BPT Optima Baltic and Poland real estate portfolio	Partners Group Holding (Switzerland); Baltic Property Trust Asset Management (Denmark)	163
Latgran (Latvia)	Graanul Invest (Estonia)	104
AS Kevelt (Estonia)	Lipoxen Technologies Limited (Great Britain)	98
Ventspils Nafta JSC (Latvia)	Euromin Holding (Vitol Group) (Cyprus)	80 + 27**

\*NB: Table included only deals with publicly available transaction value.

\*\* Euromin Holding acquired 43.25% stake in Ventspils Nafta in September 2015. In December the share buyback was announced for a price of 4.56EUR per share.

Swedish telecommunication company TeliaSonera strategically continued to consolidate the Baltic telecommunication market. In October, the company announced a merger of two Lithuanian subsidiaries – the fixed line telecom provider Teo and mobile operator – Omnitel. Teo will acquire Omnitel for a price of 220 million EUR, which corresponds to 7.8x company's 2014 EBITDA level. After the merger companies plan to generate synergies worth 10m EUR annually, as well as to offer their customers more convenient and unified telecommunication service. The deal is expected to close in the first quarter of 2016.

In 2015 discussions about the possible merger between Latvian telecommunication companies Lattelecom and LMT returned. Consequently, it is possible that the consolidation of the telecommunication industry in the coming years could also take place in Latvia. Additionally, at the very end of the year it was announced that Bite Group will

switch its owners from Mid Europa Partners to Providence Equity Partners in the Q1 of 2016.

The second largest deal significantly shook up the Baltic real estate market, which in the latest years was in a relative slowdown. The real estate investment vehicle set up by Partners Group and Baltic Property Trust Asset Management acquired real estate portfolio consisting of seven well-known retail and office buildings in Tallinn, Riga, Vilnius, Kaunas and Klaipeda, as well as a property in Gdansk, Poland, with a total area of 112,000 m<sup>2</sup>. This deal confirms the returning interest of foreign investors in the Baltic real estate market.

Unusual transaction occurred at the end of 2015 in Estonia, where the British biotech company Xenetic Biosciences, via subsidiary Lipoxen Technologies, acquired the intellectual property rights to the Estonian company's developed oncology vaccine Virexxa, thus ranking 4th in the largest Baltic transactions list.

**Geographical distribution**

58% of the transactions in 2015 had only Baltic counterparts. The proportion of such transactions has increased meaning that Baltic companies continue to actively use the consolidation opportunities.

Despite this, at the end of 2015 there was a significant increase in the number of cross-border transactions, where a Baltic company acted as the acquirer. There were 22 such transactions in 2015, dominantly in IT and technology sectors. 14 of them occurred in the last quarter of the year.

**Industry distribution**

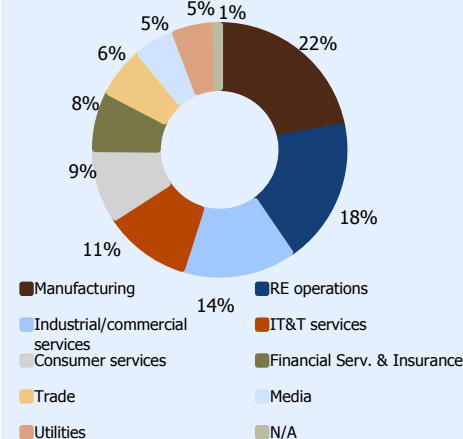
Similar to 2014, manufacturing was the most active M&A sector. Investors' interest in this sector continues to grow, evidencing that manufacturing industry in the Baltics is still open for opportunities for consolidation. For instance, Latgran's takeover transaction has allowed Graanul Invest to become the largest producer of wooden pallets in Europe, as well to expand the operations on a global scale, which means that by combining Baltic companies the competitiveness in the global market can be significantly increased.

**Forecasts**

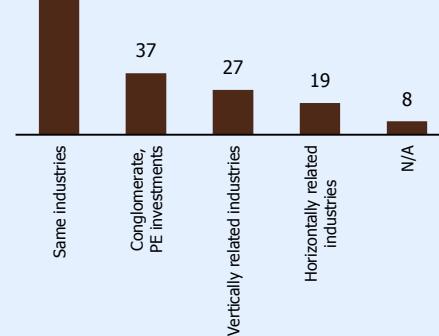
The deal volume in 2016 is expected to remain stable or slightly increase. There are several factors affecting this.

First, having adapted to the impact of the Russian economy, companies are likely to show better financial results for 2015, which will strengthen investors' interest in acquisitions. Second, in the Baltic market there is currently a broad funding availability from various regional private equity funds, which are interested to place their investments in the near future. Finally, the consolidation of the companies in the Baltic States is likely to continue with an aim to improve the competitiveness of local companies in the global market.

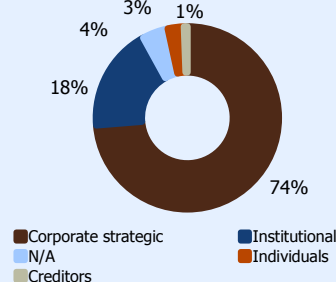
**Breakdown of Deal Count by Industry of Target Companies, 2015**



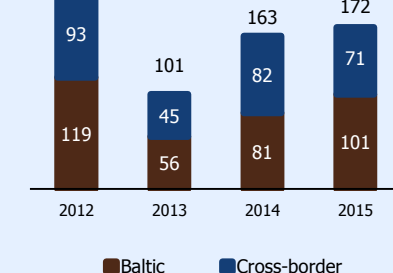
**Breakdown of Deal Count by Relatedness of the Acquirer and Target, 2015**



**Percentage Breakdown of Investor Type, 2015**



**Breakdown of Deal Count by Geographic Orientation of the Transaction**



Sources: S&P Capital IQ database, Advisors' homepages, NASDAQ OMX Baltic, Wall Street Journal. 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.

## The banking sector's evolution

In recent years, along with the extensive arrival of modern technologies in the everyday life, changes have affected also the financial market and its key player - banks. Banking in the traditional sense - with retail branches, banking clerks and standardized services - are becoming less significant. The popularity, however, of online and mobile banking transactions, online money management and even cash stockpiling in digital wallets (for example, Paypal and Apple Pay) has grown tremendously.

Innovations and creative solutions can be increasingly found also in other traditional banking sectors like financing and borrowing. In recent years, crowdfunding has earned a major role in capital raising practices allowing entrepreneurs to reach out for investors worldwide in an efficient and fast manner. A similar trend can be observed in the lending / borrowing market with the establishment of peer-to-peer (P2P) lending platforms that provide access to the credit market for a wider range of people, as the traditional banks offer, as well as allow investors to place their free funds for an attractive return. Such P2P lending platforms are already operating also in the Latvian market.

In addition, solutions offered by the new financial technology (FinTech) companies are gaining wider popularity. Services like executing online payments with the help of a smartphone, digital currencies, international money transfers within a few seconds, to mention a few, are becoming integral parts of peoples' lives.

The main challenge the traditional banks have to face now, is, therefore, not the competition with other banks in the existing markets, but the decrease of the banking role in the financial markets and economy in general.

### Factors affecting FinTech companies

According to experts, the growth of financial technology companies depends mainly on three factors - the rapid technological developments, market trends and changes in customer demand.

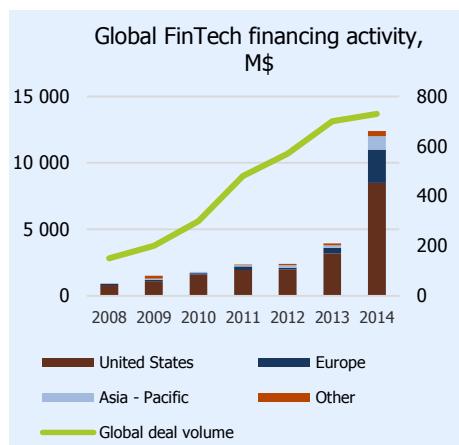
The increasing availability of smartphones provides an opportunity to address financial issues digitally without visiting an actual bank branch. FinTech companies use this fact to design user-friendly applications that allow direct access to the financial services on the go. The development of such applications nowadays is relatively simple and inexpensive, promoting lower transaction fees and commissions, which companies can offer their customers.

On the other hand, data security is cited as a negative factor influencing the break-through of all-online financial solutions. Doubting the sensitive financial data leakage risks, the level of trust in modern financial solutions decreases.

### Importance of FinTech companies

The main players in the financial technology evolution are start-ups, which with innovative ideas, flexible organizational structure and attracted funding are able to offer revolutionary

solutions. Their activity in recent years is growing, with a consequent increase in funding attracted by the industry.



Source: Accenture; <https://www.accenture.com>

In 2014 the global financial technology sector investment activity increased by 201% y-o-y. Although US FinTech's attracted the vast majority of this investment volume, European companies achieved impressive 215% growth percentage over the previous year. A similar trend continued in 2015, when in the first 9 months of the year the total amount of investment amounted already to 10.5 billion USD.

Given that traditional banks are subject to heavy regulations and strict hierarchical structure, it is relatively challenging for them to adapt to new market solutions and disruptive innovations. The world's largest banks are therefore trying to copy the features of FinTech companies by either investing or acquiring them, thereby taking the already developed technologies in-house. Particularly active in this segment from 2009 to 2015 has been Citigroup bank, which has acquired 15 financial technology companies, followed by Goldman Sachs with 11 acquisitions and Morgan Stanley with eight transactions over the past six years.

Alternatively, the British Barclays bank has built up its business accelerator program, under which promising FinTech start-up companies are offered assistance, infrastructure and mentoring for developing their ideas. The most successful start-ups after graduation are rewarded with an actual investment by the bank. Accenture and Citigroup bank also offered similar programs in 2015. According to experts, the business development programs in the coming years will only grow in importance, as more and more banks want to attract successful young technology companies to their organizational structures.

### Financial technologies in the Baltic market

Although the Baltic market is still dominated by banking activities in the traditional sense, alternative-banking offers are slowly appearing in the market and their popularity is growing.

In July 2015, Citadele Bank introduced a new type of payment option on the public transport - a payment card with an e-ticket (e-talons).

This example clearly demonstrates that also Baltic banks are trying to adapt to the new financial technology offerings with the introduction of non-standard solutions in their range of services.

The growing importance of non-cash transactions is confirmed by the popularity of Latvian application Monea, which is the first of the Latvian Financial and Capital Market Commission (FKTK) licensed micropayment institutions, which may carry direct money transfers via app, thus skipping the payment instruments and commissions. By downloading the application and registering the bank details, it possible to transfer a payment to any of the contact persons saved on the phone in a matter of few seconds. It is foreseen that more than a million euros in financing attracted in 2015 will allow Monea to shortly start operations also in Lithuania and Estonia.

Example of a FinTech company in the Baltic market, providing aforementioned P2P loans, is Mintos. Mintos has created a market for asset-backed loans, where potential borrowers looking for favorable borrowing conditions, meet investors willing to achieve a relatively high return on their investment. In January 2016, the cumulative amount of loans issued amounted to 12.5 million EUR.

Finally, Estonian developed and UK based Transferwise that offer cash transfers in different currencies has already achieved recognition globally. So far, it has attracted 91m USD capital, including financing from the world-known investors such as Richard Branson and PayPal founder Peter Thiel. Company's valuation in the financing phase amounted to 1 billion USD.

### Forecasts

Based on Oracle Financial Services data gathered from interviewing the world's largest banks on the topic of banking sector development in the coming years, most of the respondents replied that the alternative payment methods providers, social networks and telecommunications companies would be the largest banking competitors by 2020.

Although it is expected that the development level of FinTech enterprises in the near future will only increase, it is unlikely that these companies will be able to fully replace the traditional banking services. Despite this, FinTech companies can significantly affect the profitability of the banking sector, which will be an important factor when planning the banks' business models. If before banks performed FinTech acquisitions and carried out in-house solution testing, in coming years it is likely that banks and IT companies will work together in order to enable the introduction of new technologies for a wider banking clientele. In such projects, potentially, even more major banks and IT companies will work in close cooperation.

Ability to adapt and respond dynamically to the revolutionary market changes, will determine which banks will be able to maintain its market position also in the future.



#### Main deals in 2015

In 2015 with the participation of Prudentia two significant transactions in the Baltic market took place.

In September 2015, after several years of focused work, as a result of which the operations of the National carrier airBaltic were stabilized, a positive decision from the European Commission regarding airBaltic State aid investigation proceedings was obtained, several legal proceedings were cleared, as well as airBaltic share capital increase by about 82m EUR was completed, Prudentia managed to attract financial investor Ralf-Dieter Montag-Girmes to the company.

The deal structure included EUR 52m investment from the financial investor and a EUR 80m investment from the Latvian state. Currently, the deal is in the structuring and closing phase.

In October 2015, milk processing company's Rigas Piensaimnieks (RPS) acquisition transaction led by Prudentia, was closed. The deal resulted in Food Union group becoming one of the three largest dairy product producers in the Baltics, others being Pieno Žvaigzdes and Rokiškio Suris. This transaction confirmed the logical process of consolidation of the dairy processors at the Baltic country level, as Food Union has already made six acquisition transactions in Europe. RPS seller was US investment fund Darby Private Equity.



*Rigas Piensaimnieks deal signing. Photo: Kārlis Krastiņš*

#### Review of Prudentia Group enterprises

2015 was a successful year also for Prudentia group enterprises. "Prudentia Energy Markets" is the leading team of experts in the Latvian energy sector, focusing on energy consumption and cost reduction for industrial and commercial customers, as well as operational optimization of energy producers. In 2015, the company continued to provide electricity and CO2 allowances portfolio management services to existing and new customers, including JSC Valmiera Glass Fiber, Fortum Latvia, JSC Graanul Invest group companies, JSC B.L.B. Baltic Terminal and Riga Central Market. 2015 was marked by a number of studies in the fields of electricity and natural gas, for instance, the economic viability assessment of the offshore wind generators ordered by Environmental Protection and Regional Ministry of Latvia.

In cooperation with Latvian and foreign partners Prudentia Energy Markets initiated ESCO services (energy service / saving company), under which energy audits and ISO 50001 Energy Management Standard

Implementation services were provided to several Latvian companies, including JSC Jauda, Valpro and Baltrotors.

#### Market assessment

In March 2015, Prudentia, together with Nasdaq Riga and Rothschild Group invited largest Latvian business representatives and industry experts to the Latvian most valuable company TOP 101 Morning debate, which focused on the telecommunication industry prospects in the possible LMT and Lattelecom merger context. The aim of the debate was to encourage public exchange of opinions on the value of the companies by analyzing the current company and market status. Discussion's participants outlined three potential scenarios in which LMT and Lattelecom can develop and discussed the advantages of each of these scenarios and their impact on the value of both companies.



*TOP 101 Morning debate. Photo: Aivars Liepiņš, F69*

In October, Prudentia and Nasdaq Riga published the jointly created Latvian most valuable company TOP 101. This socially important initiative celebrated ten-year anniversary this year. On the top of Latvian most valuable company list, its position retained JSC Latvenergo with a value of EUR 1067.8 M and JSC Swedbank. The two companies' values are separated by less than one percent. In the previous history of the TOP 101 the winning candidates had never had such a small value difference. JSC Latvijas Valsts Meži ranked third this year.

"The information gathered from ten-year long analysis and accumulation allows us to look at the development of Latvian economy and its individual sectors, as well as to analyze the growth of enterprises," Prudentia Chairman of the Board Kārlis Krastiņš shared.

Similarly, for the second consecutive year, Prudentia and Nasdaq Riga presented the Baltic TOP 10 most valuable company list, providing expertise and its professional opinion on the Baltic largest companies in value.



*Latvia's most valuable company TOP 101 award ceremony. Photo: Aivars Liepiņš, F69*

Prudentia has also successfully continued M&A Folio publishing. The aim of this review is to look at the Baltic M&A market trends and to offer expertise about the sector to the general public. In 2015 M&A Folio industry expertise themes focused on the consolidation events in the telecommunication market, innovative solutions in the insurance industry, as well as energy and capital market patterns.

#### Social contribution

The work aimed at the public intelligence level increase related projects continued in the spring of 2015, when Prudentia organized a series of lectures on the business of mergers and acquisitions at Stockholm School of Economics in Riga.

During the course Prudentia specialists and partners shared their practical experience in the field of M&A, as well as presented students with in-depth knowledge of the factors affecting the value of the company as well as financial modeling basics. Finally, one of the best performing students Daniel Mititel from Moldova joined Prudentia team for a summer internship.



*Awarding the best performing students of the Prudentia course "Mergers & Acquisitions". Photo: Rihards Eizentāls*

Prudentia and its Group companies also continued to support nation-wide initiative "Iespējamā misija" ("Mission Possible"), which aims to strengthen the aspect of education as a value in Latvian society.

#### Prudentia team

Professional and united team is the key element, which supports successful operations of Prudentia. Prudentia team activities outside of work premises in 2015 included the symbolic and socially important activity - planting an oak hill (Ozolkalns) at Prudentia partner's Juris Eizentāls family farm in Ģiezas, Smārdes parish.



*Prudentia oak hill planting. Photo: Valdis Apaļka*

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