

Deal Overview

Similarly as last year, merger and acquisition (M&A) deal market during the period from May till August has decreased compared to the first 4 months of the year, which is typical for the *holiday season*. In this period 67 deals were announced, which is by 10 deals less than in the previous period. In 2016 the number of deals during the holiday season decreased by 20% compared to the first 4 months of the year, however, this year it decreased only by 13%. Surprisingly, quite many (25 in total) deals were announced in July, which is usually the least active month of summer. Other months showed quite similar distribution of number of deals announced. In May and August there were 15 deals announced and in June – 12.

Since Prudentia Folios are being published, the M&A activity in the Baltic States has shown an upward trend. Taking into account the fact that the M&A activity in the Baltic States in the first 8 months of 2017 has been by 20% higher than same period last year, we can with high confidence predict that this year is going to end with higher M&A activity than last year.

Notable Transactions

For 18 cases out of 67, the deal value was publicly available. The accumulated value of these deals was 0.37 bEUR.

Selected M&A transactions, May-Aug, 2017*		
Target Company (Country)	Acquirer (Country)	Deal Value (mEUR)
First Data Baltics** (Baltics)	Worldline S.A. (France)	73
7 Store Sites (Estonia)	Baltic Retail Properties UAB (Lithuania)	64
VGP Park Nehatu (Estonia)	East Capital (The Netherlands)	55
Accumulated sum of publicly available deal values in May-Aug, 2017 period:		372.69

*NB: Table includes deals with publicly available transaction value.
**Subsidiaries of First Data were acquired in Estonia, Latvia and Lithuania.

The greatest deal during the period from May till August involved all 3 countries of the Baltic States. The leader in the payments and transactional services industry in Europe Worldline S.A. (France) acquired subsidiaries of First Data Baltics (FDB). As Gilles Grapinet, CEO of the French company, comments, this is a very important deal for the group's future as they now have the leading role in the payments industry in the fast-developing Baltic countries. Moreover they have also strengthened the position in the whole Northern European market. Worldline's CEO is confident that together with FDB's team they will be able to offer their clients, the largest Nordic banks, the next generation payment services.

The fourth largest deal in this period was Vitol Netherlands B.V. acquiring JSC „Latvijas Kuģniecība” shares in value of 50.4 mEUR leading to total ownership of 90.79% share capital in the company. In July Vitol Group bought additional 19.62% of share capital from Fondo H Estonia and the price of one share was 0.56 EUR. Until then they already owned 49.94% of JSC „Latvijas Kuģniecības” shares.

Consequently, Vitol Netherlands S.A. had to make the mandatory buyout offer for the minority shareholders. As the State of Latvia was one of them and, therefore, could not influence the decision making process in the company in anyway and the decision to sell their 10% shares for 14.2 mEUR to Vitol Group was made.

Moreover this was not the only M&A activity in which Vitol Group was involved during this period. One of its subsidiaries sold the building of „Preses Nams” for almost 17 mEUR to a Lithuanian private equity fund Lords LB Asset Management. We believe that an investor with such an experience in real estate will make a positive contribution to the further development of this significant place in Riga in the coming years.

Finally this summer once again the question of the possible merger of Latt telecom and LMT was raised. KPMG published a review of the evaluation of this potential merger, and this time around the pressure from Telia is bigger than ever before. At the same time there is a lack of confidence that relevant government decision will be made in nearest time, thus complicating the relations with Telia.

Geographical Distribution

During the period from May to August there were 28 M&A deals announced, in which the acquirer and the target represent the same country. The most deals, namely 14, during this period were announced in Estonia and 8 in Latvia and 6 in Lithuania. 11 of 67 deals were pan-Baltic and the rest (28) involved parties from outside the Baltics.

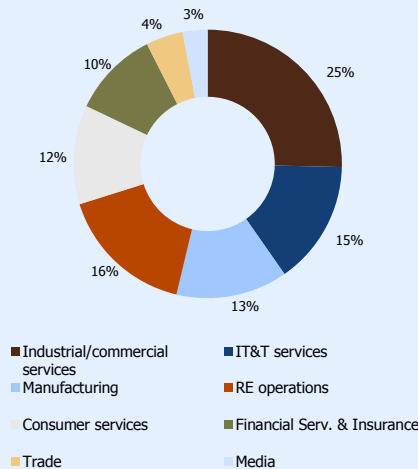
In the first 4 months of the year international investors represented 16 different countries. During this period, only 12. Nevertheless we are cautious to make some strong conclusions that the interest for Baltic companies has in any way decreased in the eyes of foreign investors. Moreover the overall statistics show the opposite – there is still an increasing interest for the Baltic companies.

Industry and Transaction Overview

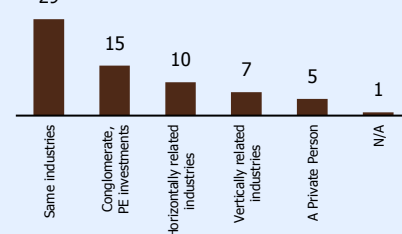
During the period from May till August the most popular industries in the eyes of investors were industrial and commercial services, IT&T services, real estate and production industry. This summer 2 large deals took place in the real estate industry. 7 Store Sites in Estonia were bought for 64 mEUR and logistics park „Nehatu” for 55 mEUR. Furthermore, during the period from May till August the number of deals in real estate industry increased by one, therefore, the real estate industry ranked in the second place as the most demanded sectors by the investors (previously – forth).

In contrast with the first 4 months of the year, in this period there was an increase of number of deals in the Financial Sector. The seven deals in the Financial Industry takes up 10% of the whole pie. In other industries there are no notable changes.

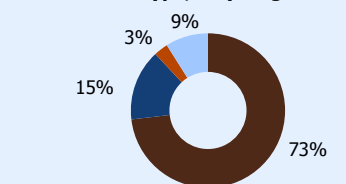
Percentage Breakdown of Deal Count by Industry, May-Aug 2017



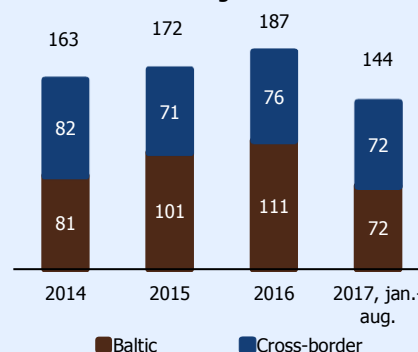
Breakdown of Deal Count by Relatedness of Acquirer and Target, May-Aug 2017



Percentage Breakdown of Investors by Their Type, May-Aug 2017



Breakdown of Deal Count by Geographic Parameters, 2014 – 2017 August



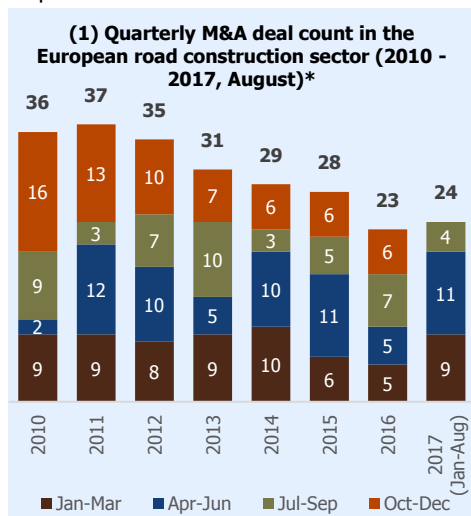
Sources: S&P Capital IQ database, Advisors' homepages, Mergermarket, Deloitte, Colliers.

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.

Intensity of the road construction M&A's

In 2017, the Baltic M&A road construction sector has been unusually active. By the end of August there were 4 transactions announced (one transaction unrealized), and the target companies represented leading positions among this industry. Therefore, this time in the Prudentia industry expertise we will analyze the road construction M&A market, focusing on global trends, as well as taking a closer look at the Baltic activities in this sector.

The number of European M&A deals in the road construction sector has gradually decreased in recent years (see graph 1). From the beginning of 2010 to August 2017 there were 243 deals announced. One of the potential reasons for such an active M&A market in these 7 years could be pointed out the financial consequences resulting from the crisis. As a result of mergers, when financial synergies are realized, duplicate activities are eliminated, economies of scale are realized and other benefits utilized, road builders become more competitive in procurement processes. Perhaps precisely due to these reasons in the post-crisis period M&A deal activity in the road construction has been as high as shown in graph 1. In addition, it should be noted that during such a shock period there is also a tendency for the value of companies to decrease, providing bigger and stronger competitors the opportunity to expand their market position with relatively cheaper acquisitions.

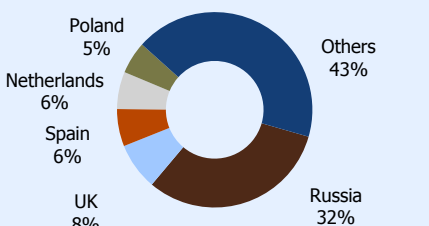


*The statistics also include acquired companies that also operate in other sectors besides road construction.

Geographical distribution of deals

In the period under review those countries that targets represented more than 5% of the total 243 transactions are shown in graph 2. In the respective period road construction companies from Russia were the most demanded acquisition targets (purchases were announced in 32% of all transactions). The Russian government plans to contribute huge investments for road quality improvements (about 7.4 bUSD in 2017), which is why in upcoming years Russia will most likely witness an internal consolidation of the market with an aim to build stronger candidates for future road construction procurement processes.

(2) Percentage breakdown of deal count by target's country of origin (2010 - 2017, August)*

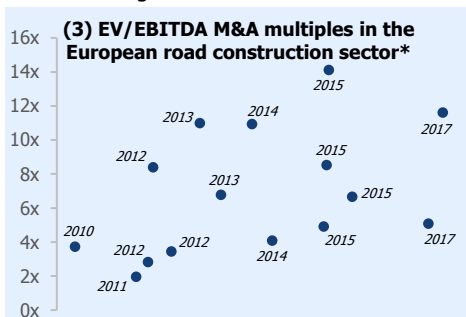


* The statistics also include acquired companies that also operate in other sectors besides road construction.

In the Baltic States M&A market in the road construction has been practically inactive since 2010 until the beginning of 2017. In addition to already mentioned 4 transactions of 2017, the previous transaction in the Baltics was announced back in 2010 when AB Invalda and other shareholders sold their stakes in Tiltra Group, Kauno Tiltai and Silentio Investments to Polish infrastructure and energetics builder Trakcja Polska for the total price of 196.8 mEUR. At the end of the transaction share-swap was realized and AB Invalda became the owner of 12.5% stake in Trakcja Polska. Today Kauno Tiltai is one of the largest Baltic transport infrastructure companies with revenues of 130.3 mEUR in 2016.

Historic multiples in road construction

Out of all 243 transactions only 15 transactions publicly disclosed their implied EV/EBITDA multiples. These multiples are shown in graph 3 in chronological order.



* The statistics also include acquired companies that also operate in other sectors besides road construction. Deals are ordered sequentially. 2016 is the only year without publicly available multiples.

As previously mentioned, one of the possible reasons for such an active M&A market in the road construction sector during post-crisis period could be relatively low business valuations. Graph 3 shows that with the economy and industry recovering the acquisition values of European road builders, expressed as EV/EBITDA multiple, has gone up. Median EV/EBITDA is 6.65x.

The EV/Sales multiple, whose graph is not included in the industry expertise, was publicly available for 29 transactions. This multiple does not mark a particular development trend since the beginning of 2010 until August 2017. Median multiple has been 0.29x.

Industry's situation in the Baltics

The following table lists the Baltic M&A transactions in road construction industry since 2010.

Target company (country)	Investor (country)	Year
3 companies*	Trakcja Polska (Poland)	2010
Celju pārvalde** (Latvia)	N/A	2013
TREV-2*** (Estonia)	BaltCap (Estonia)	2017
Saldus ceļinieks (Latvia)	Eurovia (France)	2017
Vooremaa Teed road maintenance business (Estonia)	Eesti Keskkonnateenusused (Estonia)	2017

*Acquired Tiltra Group (Lithuania), Kauno Tiltai (Lithuania) un Silentio Investments (Poland).

**Privatization process.

***RRTK Kapital previously announced the acquisition of the same stake (deal did not realize).

In the beginning of this year Baltic private and venture capital investor BaltCap acquired an additional 38% stake in Estonian TREV-2 from East Capital Explorer AB for 5.7 mEUR. Thus now the investor controls 75% of shares in this company. The transaction, which was announced but did not realize due to the use of BaltCap's pre-emption rights, was an attempt by RRTK Kapital, a company owned by Infortar, to purchase these 38% in TREV-2.

Another important M&A deal in the Baltic region is the purchase of 68.75% in Saldus ceļinieks by Eurovia, a French transport infrastructure construction and urban development company. Eurovia with 7.6 bEUR revenues operates in 16 countries (now including Latvia). Eurovia is a subsidiary of the giant VINCI group, which is one of the world's leading concessions and construction companies. With this investment Eurovia expands its presence in the Baltics, where previously the company provided their services only in Lithuania (2016 sales approx. 28 mEUR). Member of the board as well as minority shareholder in Saldus ceļinieks Gints Karols sees the French acquisition as a very successful step for future expansion. By the help of strategic investor's global network, long-term experience, access to information and technology, as well as financial support, Saldus ceļinieks plans to implement a wider range of activities in the Baltics and to become a leader in this region.

The distribution and size of the road construction sector vary widely across the Baltics. Top five largest companies in 2016 in Lithuania, Estonia and Latvia generated 450, 234 and 176 mEUR in sales, respectively. Estonia is the only Baltic country with foreign market leader - Finnish Lemminkäinen, whose acquisition was announced this year by Finnish YIT. In Lithuania the leader is Lithuanian owned AB Panevėžyio keliai, but in Latvia - local company A.C.B. AS. Net revenues of these companies also vary considerably - 190, 76 and 56 mEUR in 2016, respectively.

In the Baltics firms significantly strengthen their positions both via M&A and organically. Sales of Baltic companies highlight the differences in company size and most likely their influence. Already now it's observable that within the Rail Baltica project, strong international competitors enter the Baltic States in order to participate in procurement processes. Similarly, given the need for road restoration and construction of supportive infrastructure in the near future, we can expect further M&A activity. The region's investments in this and adjacent sectors will only continue, therefore there is a reason for further market consolidation.

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