

# Dealmaking goes north

**Finnish M&A market update, vol. 3**  
December 2020



# Welcome to our third Finnish M&A market update in 2020

Dear reader,

Welcome to our third Finnish M&A market update in 2020. In this material, we discuss the recent trends in the Nordic and Finnish M&A markets and give an overview to the development in Europe during Q3 of 2020.



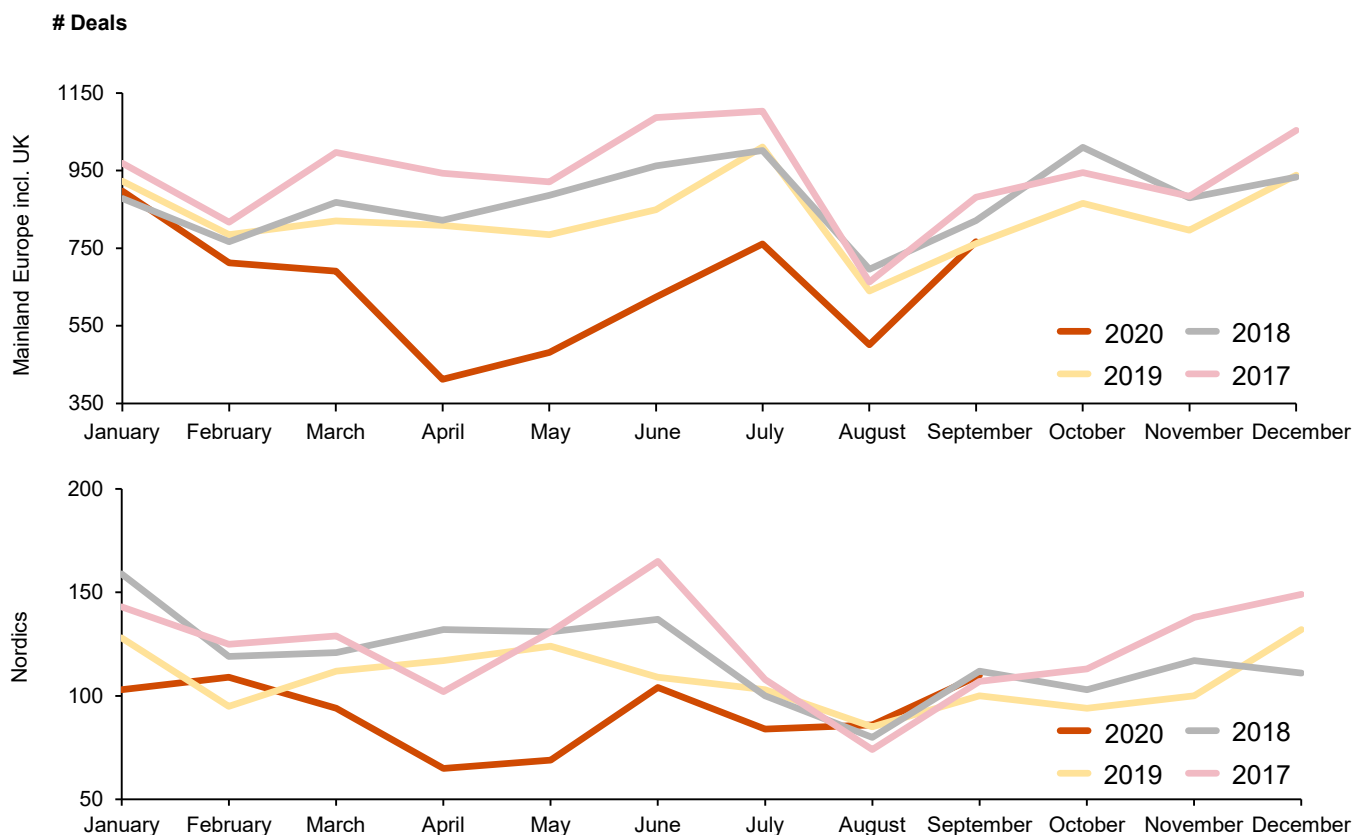
## Highlights from the M&A market:

- Deal volume in Q3 picked up across Europe, normalising to Q3 2019 levels. Nordics outperformed mainland Europe with activity in August and September outpacing levels seen since 2017.
- IT sector was by far the most dominant sector in terms of deal volume and year-over-year (YoY) growth across both Europe and Nordics. As for other sectors, deal recovery is mixed between regions.
- Sweden and Norway led the Nordics in deal activity. Finland and Denmark remained below Q3 2019, but are likely to exceed in Q4. Industrials and IT remained the driving factor.
- Although deal volume in Finland shifted from cross-border in H1 to more domestic deals in Q3, the Q3 saw a number of large public-to-public deals.
- The recovery in the markets was prominent in Q3, which has contributed to increased deal activity across Europe.
- However, recovery has been more pronounced in the Nordics across key sectors (Energy, Financials, Industrials, IT and Health Care). YoY deal activity grew at a faster rate in Nordics than in Europe.
- Market still far from normal due to continued elevated risk levels across most sectors. Valuations in IT and Communication Services remain more predictable.

# Deal activity in Europe improved in Q3 2020 but lags prior years – Nordic levels in August-September highest since 2017.

## Number of announced or completed deals in Europe and Nordics

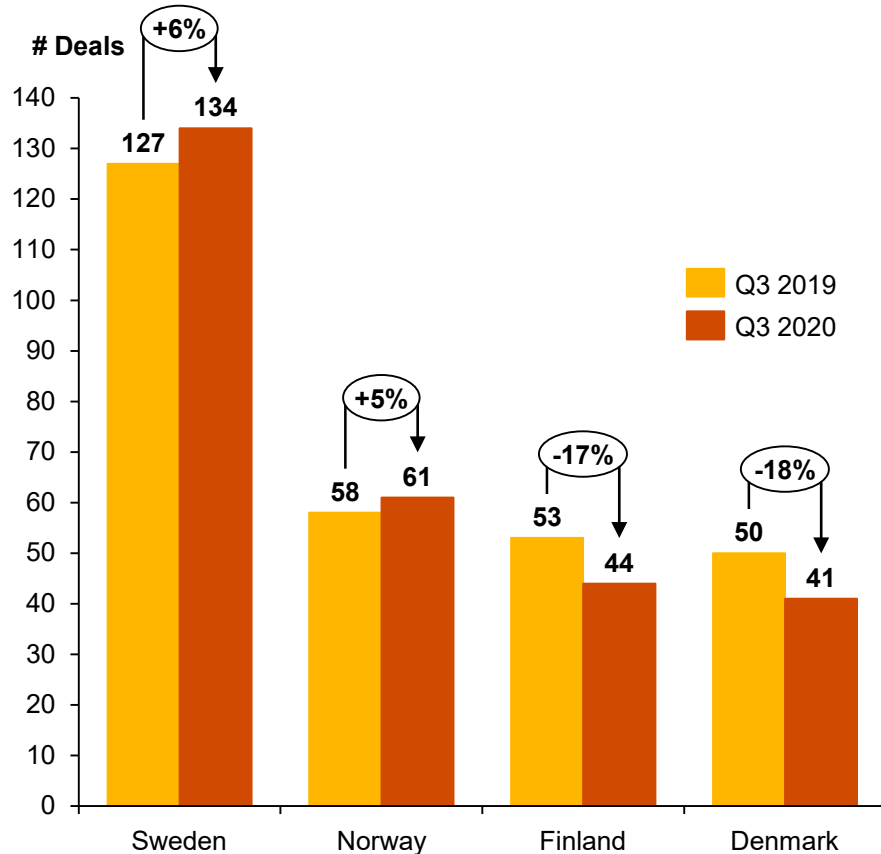
2020 vs. 2019, 2018, 2017



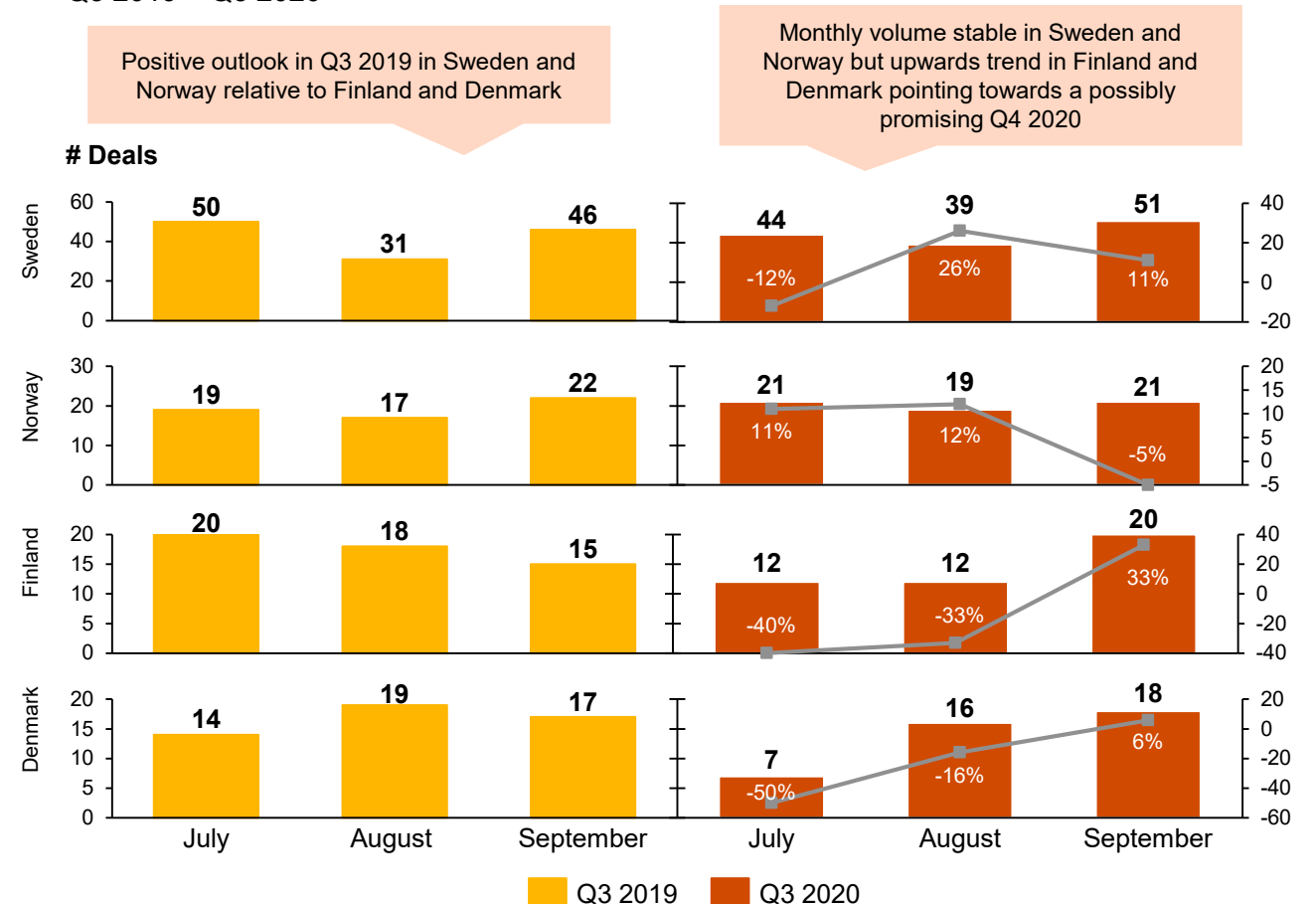
- Deal volume across Europe saw their trough in Q2, with Q3 showing noticeable signs of improvement.
- In Q3, Mainland Europe (incl. UK) still lags behind past levels seen in the last few years. Equity markets pointing to a much improved Q4.
- Barring the down month of July, Nordic deal market nearly outperformed all prior years since 2017. Q4 trend is indicative of levels similar to past years.

# Nordic deal volume growth led by Sweden and Norway - Finland and Denmark on a growth track

Quarterly deal volume and YoY growth in the Nordics by country  
Q3 2019 vs. Q3 2020

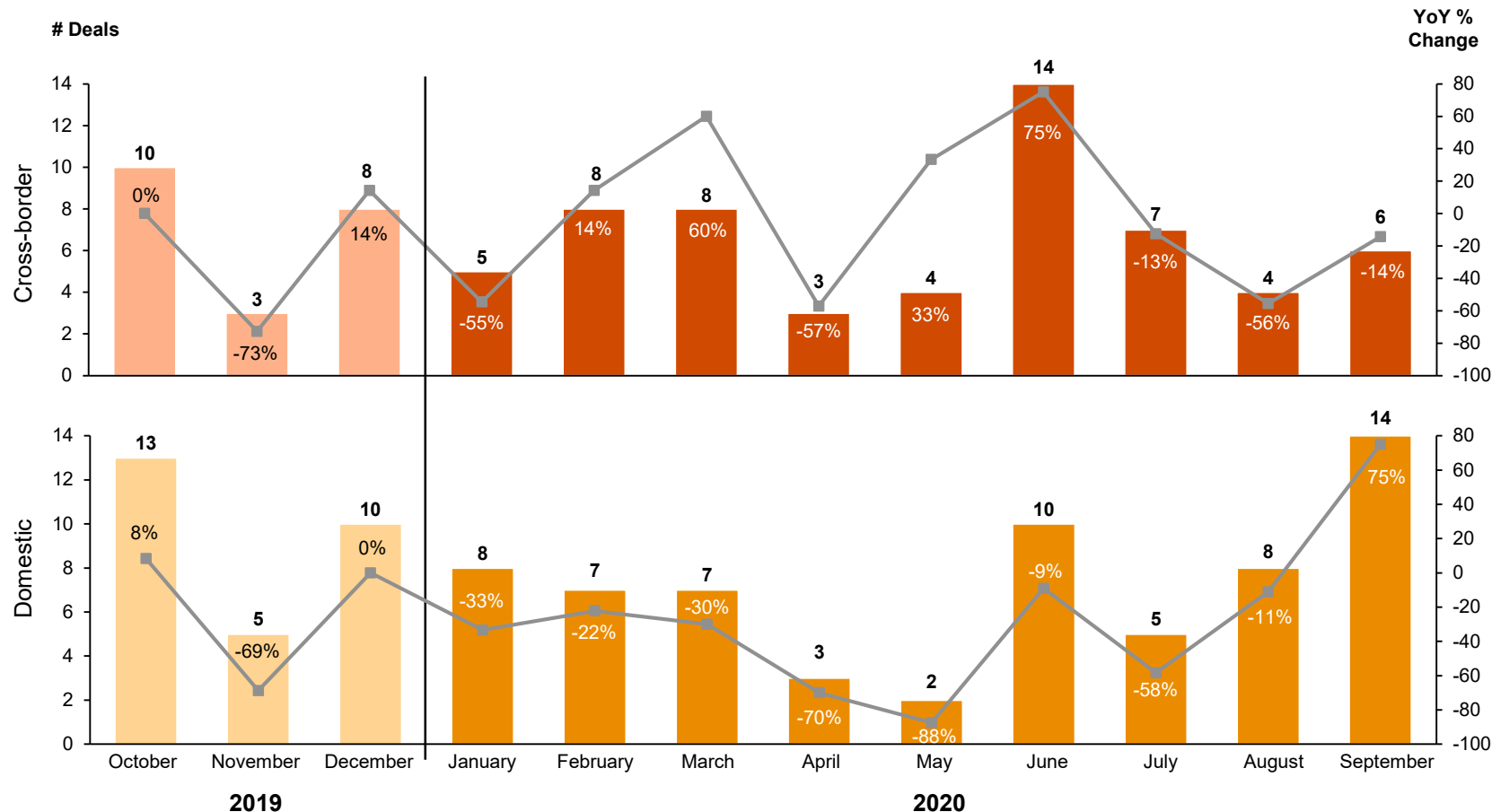


Monthly deal volume and YoY growth in the Nordics by country  
Q3 2019 – Q3 2020



# Deal volume in Finland propped up by increased domestic activity - Cross-border activity in Q3 2020 below 2019 levels

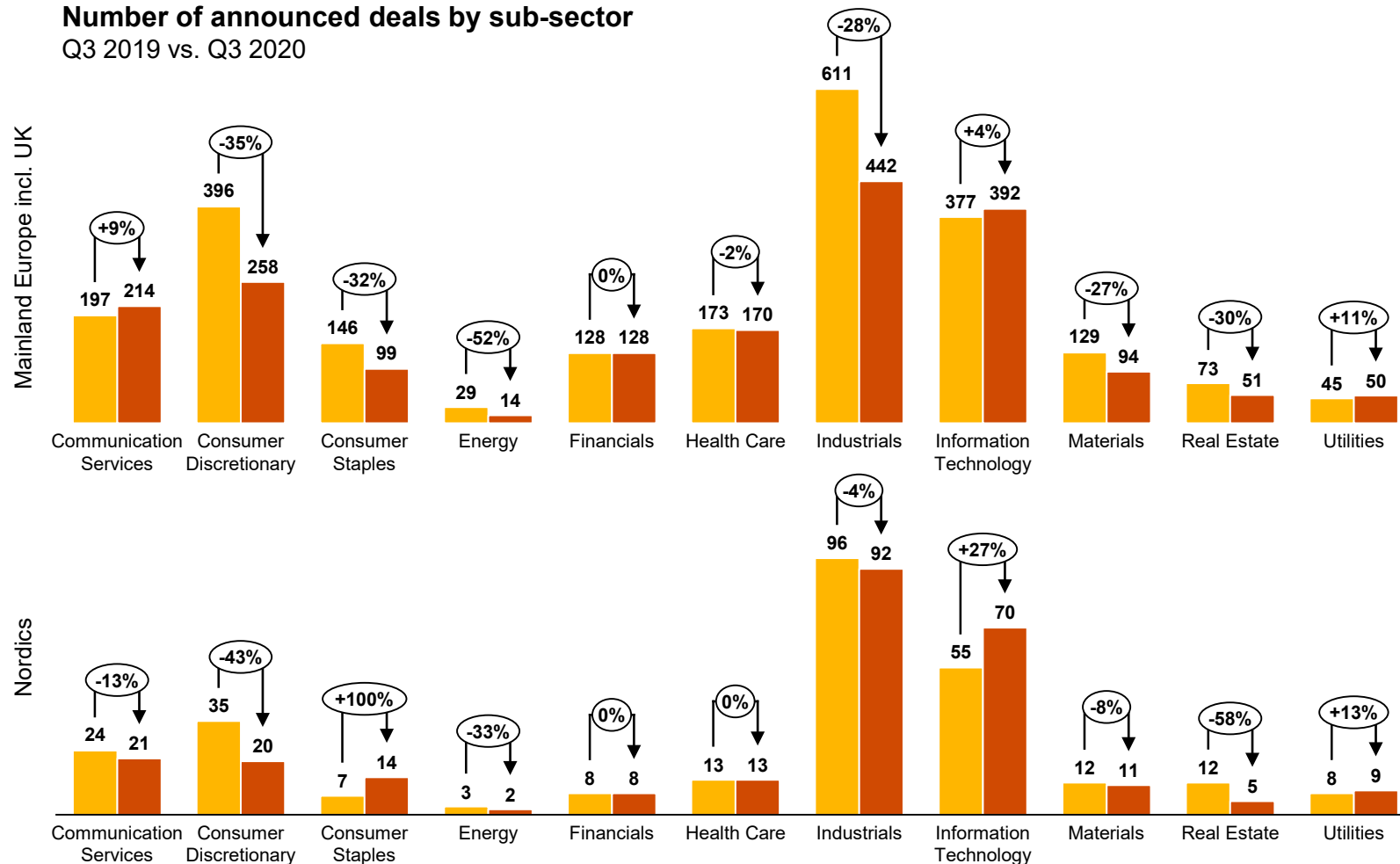
Number of announced deals by type<sup>1</sup> in Finland  
Q4 2019 - Q3 2020



- Overall deal activity in Finland has seen a visible shift over the last two quarters, both in terms of volume and composition.
- While Q2 activity was 27% below 2019 Q2 levels, it was supported by increased cross-border activity towards end of Q2.
- However, Q3 has seen a marked shift with activity largely being driven by more domestic deals.
- Overall deal volume has also seen significant increase in Q3 relative to Q2.

# IT a common theme in deal volume growth across Europe and Nordics - Other sectors show differences across regions

Number of announced deals by sub-sector  
Q3 2019 vs. Q3 2020

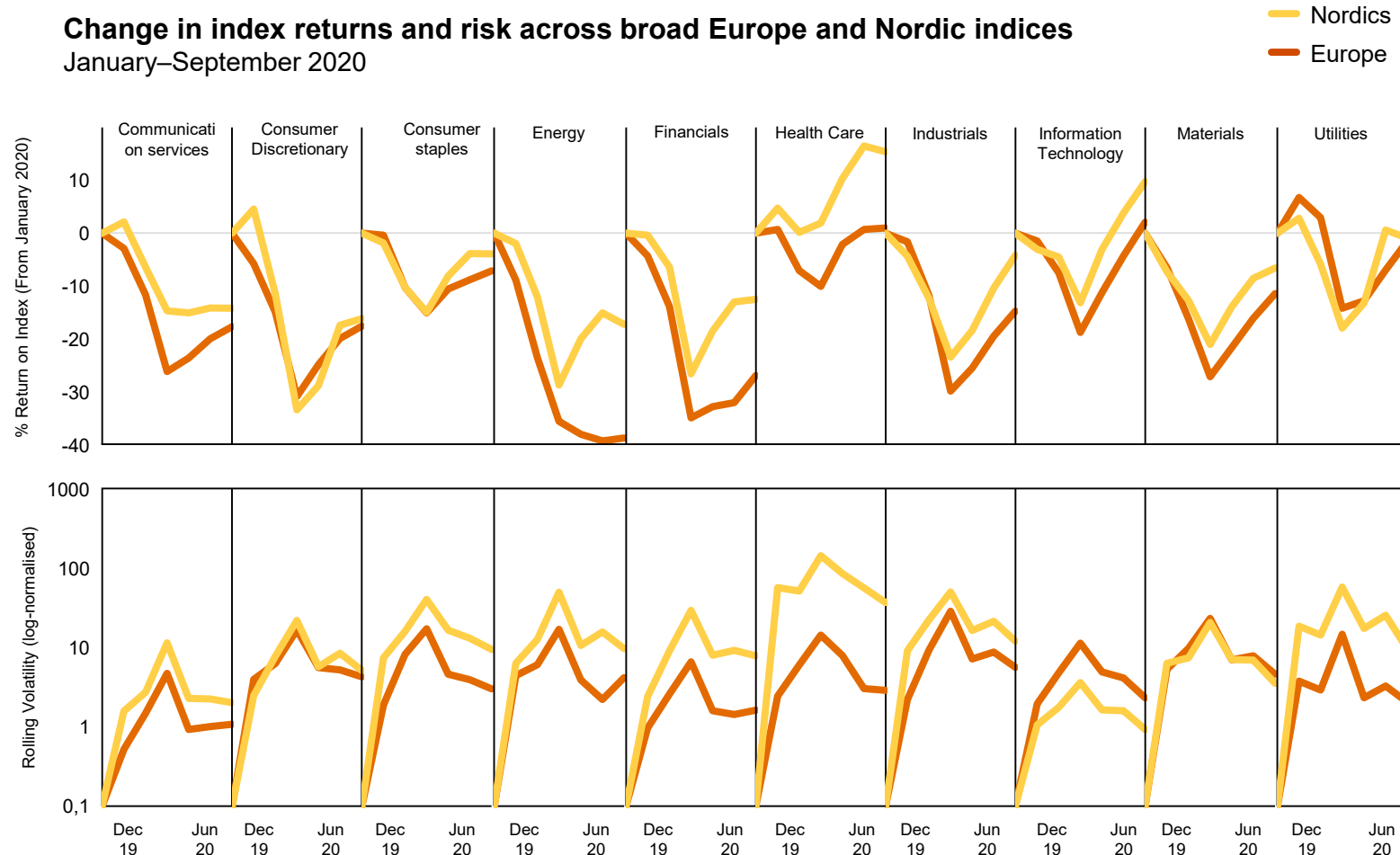


- Growth in deal volume in IT sector a common theme across Europe. Growth most prominent in Nordic with volumes increasing 27% YoY compared to 4% in Europe.
- Comparatively, in Europe, only Utilities and Communication Services show modest YoY deal volume growth (~10 pct.).
- Most other sectors are either at par or continue to underperform Q3 2019 levels.
- In Nordics, Q3 2020 activity level was very good for Consumer Staples and Utilities sectors. Five other sectors (Communication Services, Industrials, Materials, Financials and Health Care) are at-par or just under Q3 2019 levels.
- Real Estate and Consumer Discretionary in Nordics underperforming relative to Europe volume growth, YoY.

# Valuation levels in Nordics have recovered faster than in Europe, however, also volatility is higher in these sectors

## Change in index returns and risk across broad Europe and Nordic indices

January–September 2020

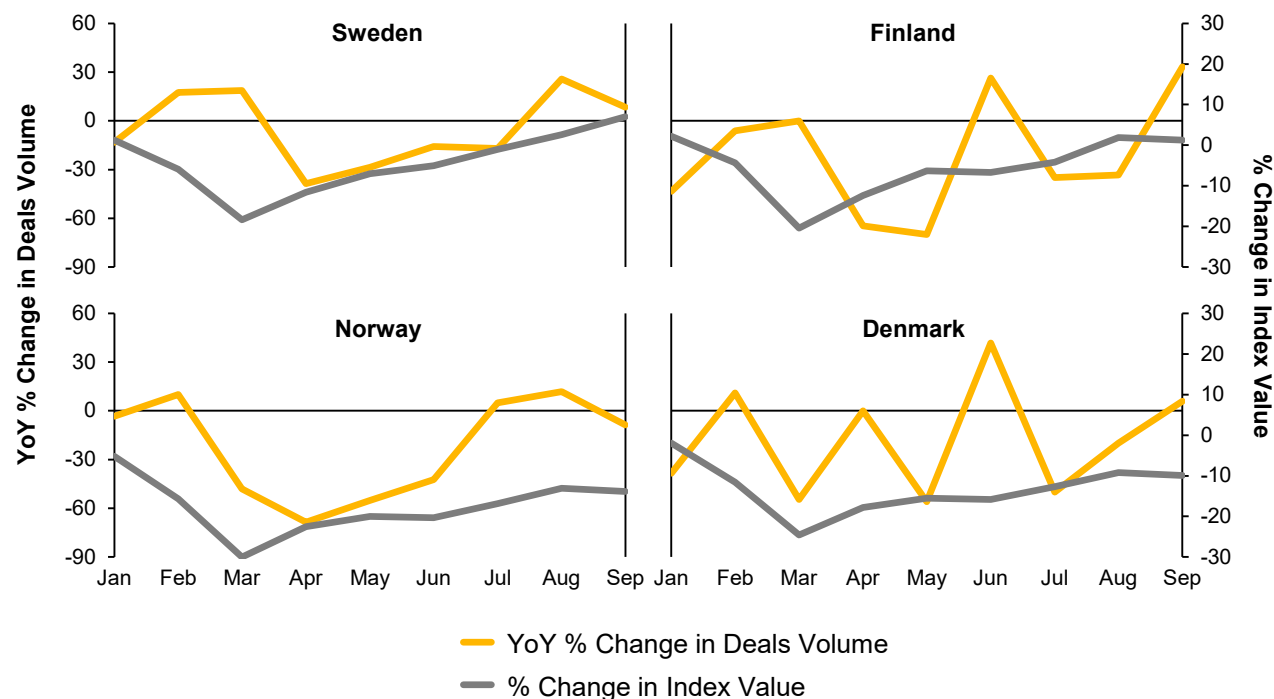


- European markets reached a trough around March-April, with most sectors showing improved valuations in Q2 already.
- Risk levels continued to remain high, although below March-April peaks.
- Post Q1, valuations between Nordics and Europe listed entities have widened in some sectors.
- Most impacted sectors with valuation difference over 5 pct.: Energy, Financials, Health Care, Industrials and IT.
- On a YoY basis, all these sectors show better volume recovery rates in Nordics relative to Europe (see previous page).
- The recovery of valuation levels also indicates potential for IPOs during 2021.

# Valuations started to recover in Q2 already - risk across regions and sectors remains elevated

## YoY change in deal volume (primary) and % Change in local market indices since 12/2019 (secondary)

January–September 2020



- Deal volume YoY growth has kept pace with fundamentals of publicly-listed markets.
- In the Nordics, Sweden and Norway have been visibly more aligned on deal volume based on market perceptions.
- Nordic equity markets have been more quick to revert to pre-COVID levels. Sweden and Norway deals have kept pace.
- Marginally, equity markets in Finland have fared better in Q3 relative to deal volume growth, which would indicate improved confidence for Q4.
- Denmark deal volumes are on an upward trajectory, in keeping pace with the outperformance in equity markets relative to other Nordic countries.

# We expect the deal activity level to remain high

**Market valuation level supports public deals and dual-track deals potentially leading to IPOs. Business portfolio reshaping will likely continue through mergers and divestments.**



## **Recovery in debt market - Buyers with dry powder**

Corporates have large amounts of cash and private equity is sitting on a pile of dry powder. However, buyer appetite will most likely focus on selected sectors with less impact from covid-19.



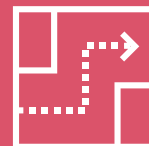
## **Reshaping the sector landscape**

We expect further public to public and PTOs related to industry consolidation in seek for increased buffers and maneuvering space.



## **A good business is still a good business**

The end is coming close to businesses that have heavily been supported by cheap money during the booming times. Businesses that have been hit by the pandemic, but have strong fundamentals, may be attractive acquisition targets.



## **Divestments**

Corporations will divest to focus on their crown jewels. There will be companies forced to divest in the need of cash. Not all businesses to be divested are unprofitable, but just too far from the core business.



## **Sector, size and business mix impact the deal appetite**

The effect of the COVID-19 crisis on certain sectors will be permanent. Furthermore, larger businesses with recurring earnings are in better position to cope with the uncertainty.



## **Globalisation vs. localisation**

COVID-19 brought up the vulnerabilities in global supply chains and we expect corporations to explore new options including partnerships and M&A with local players too.

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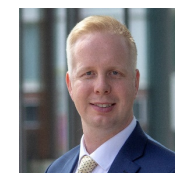
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