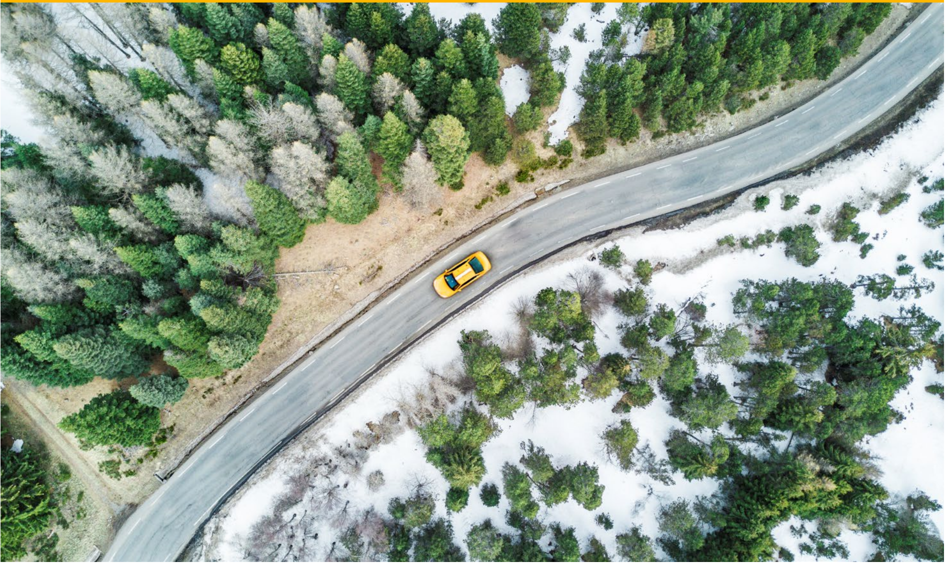
Dash for dealmaking

Finnish M&A market update, vol. 4
February 2021

Welcome to our fourth Finnish M&A market update

Dear reader,

Welcome to our fourth Finnish M&A market update. 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 Q4 of 2020.



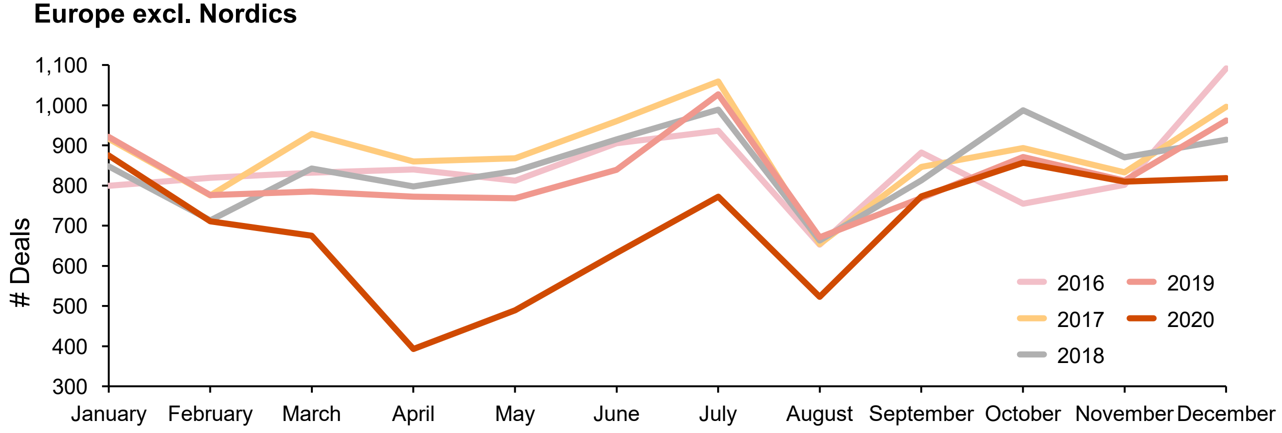
Highlights from the M&A market:

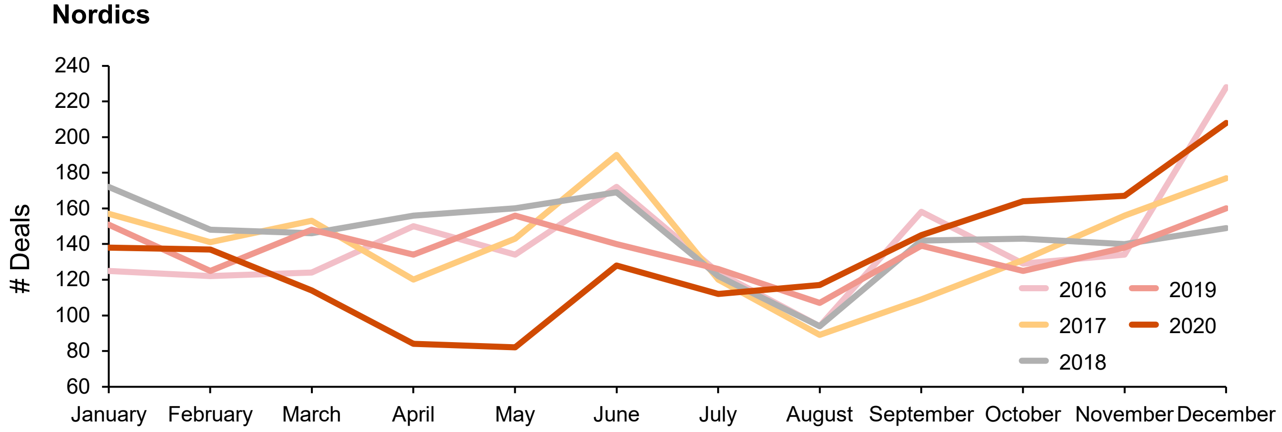
- Q4 2020 deal activity has been unprecedented, not just by the sheer volume but also the pace with which they have come about in the current climate.
- Nordics continued their explosive growth in Q4, far outpacing levels since 2016. Meanwhile, European levels normalized to Q3 levels, while still lagging prior years.
- IT sector was again the most dominant sector in terms of deal volume and YoY growth across both Europe and Nordics. However, other sectors that lagged throughout most of 2020 showed renewed interest.
- Sweden and Norway led the Nordics in deal activity. Assets associated to deal targets have been lower in Finland relative to Nordic peers. Industrial sector the main driver in Finland.
- Deal activity in Finland was balanced between domestic and cross-border deals, with inbound cross-border activity picking-up sharply.
- Most sectors have regained their losses from Q2 troughs. Nordic valuations continue to be at a premium relative to December 2019 and European levels.
- Market volatility subsided significantly in Q4 due to macro effects of multiple vaccine approvals and US elections.
- We expect to see the boom in M&A continuing, with a rush for IPO and many significant carve outs/spin offs from corporates.

Source: S&P, PwC Analysis

Nordics record highest quarterly activity since 2016, significantly outpacing mainland Europe

Number of announced or completed deals in Europe and Nordics
2020 vs. 2019, 2018, 2017, 2016





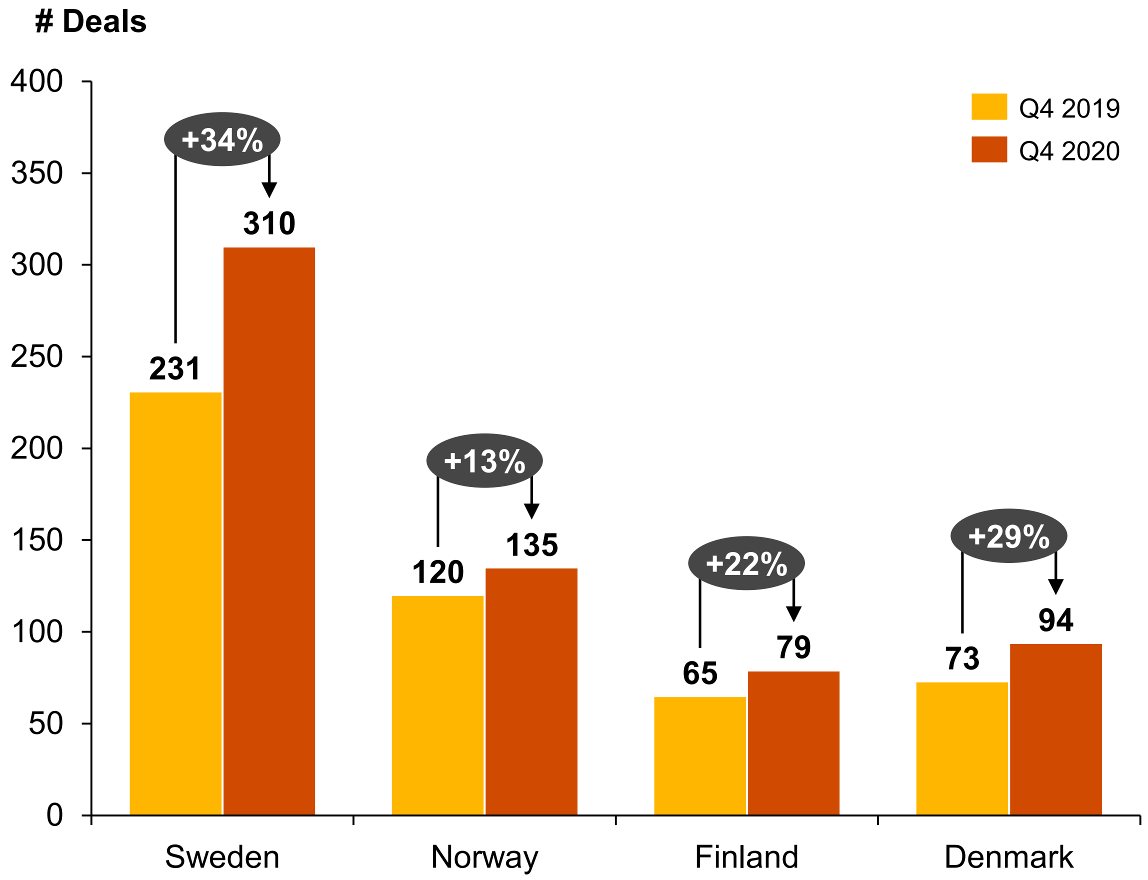
> Deal activity in Europe (excl. Nordics) normalised in Q4 2020 but continued to lag historically.

- Deal volume across Europe (excl. Nordics) saw improvements in Q4 relative to Q3, while nearly matching levels seen in Q4 2019 (pre-COVID).
- In Q4, Europe (excl. Nordics) saw the slowest December of the last five years. Equity markets have far-surpassed 2019 peaks, yielding record valuations.
- Nordic deal market in Q4 outperformed all prior years since 2016. Sectors where activity was dormant during most of 2020 showed increased interest amidst value-hunting.

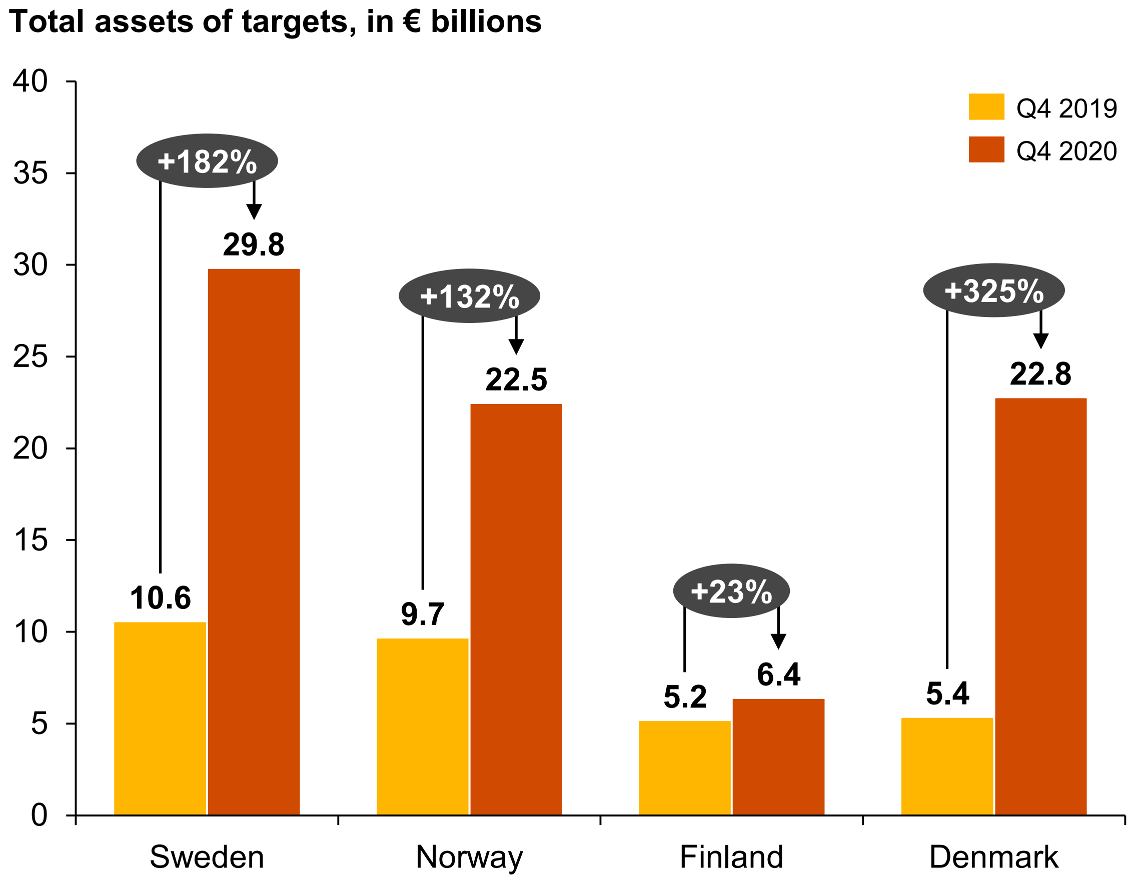
Source: S&P, PwC Analysis

Deal volume grew in all Nordic countries – total assets of targets transacted more than double, except in Finland

Quarterly deal volume and YoY growth in the Nordics by country
Q4 2020 vs. Q4 2019



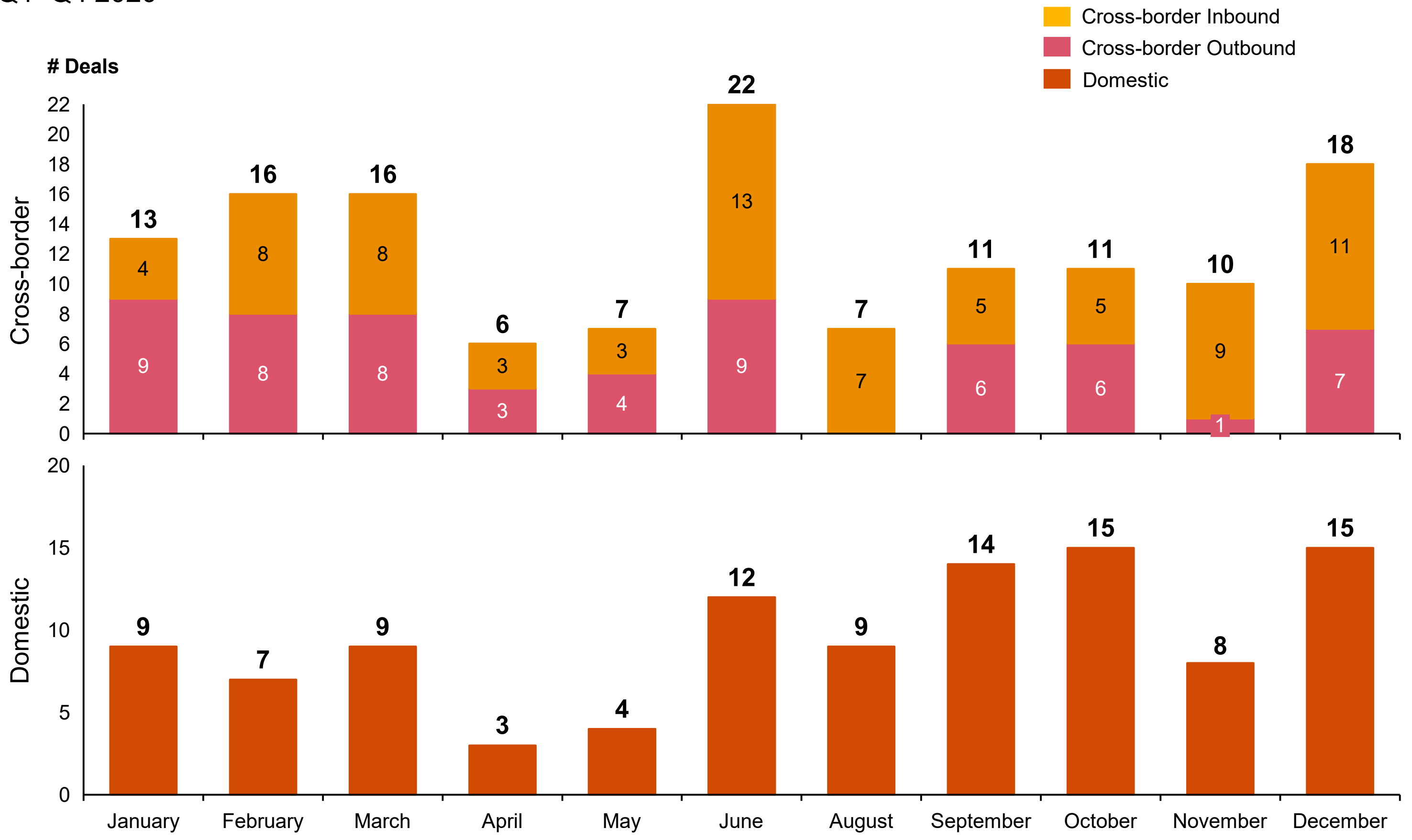
Quarterly total assets of targets and YoY growth in the Nordics by country
Q4 2020 vs. Q4 2019



Source: S&P, PwC Analysis

Finland Q4 2020 deal activity balanced between domestic and cross-border – inbound deals dominate cross-border M&A

Number of announced deals by type in Finland
Q1–Q4 2020

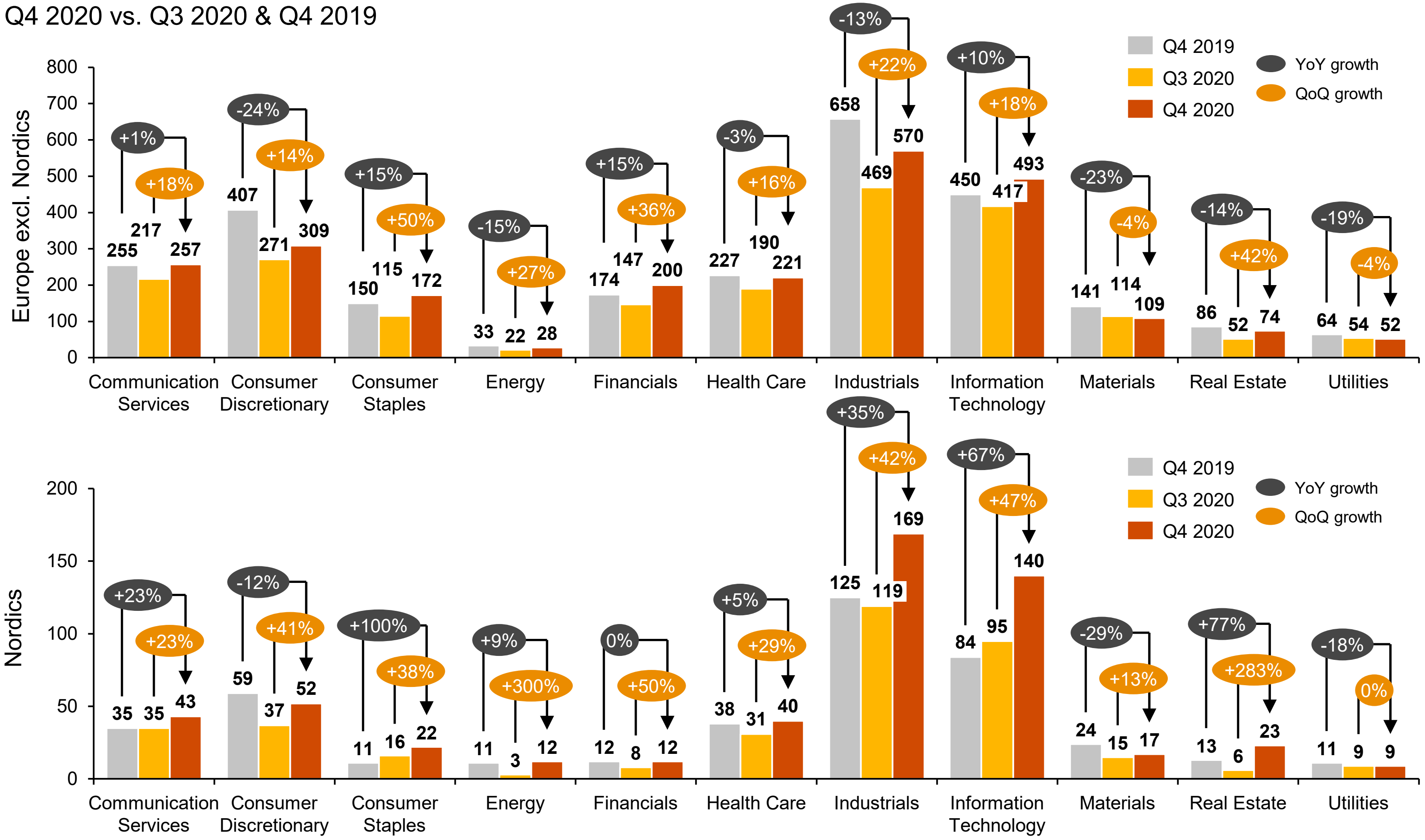


Source: S&P, PwC Analysis

- Domestic deal activity continues to remain robust in Q4, superseding Q3 levels.
- Cross-border transactions, wherein either of the transaction parties were based in Finland, picked up from their Q2 lows, matching Domestic activity in Q4.
- However, cross-border transactions are below the Q3 levels. This might be related to deals delayed due to peak COVID in Q2.
- Nearly two-thirds of the cross-border transactions were inbound, continuing the trend observed in Q3. Comparatively, Q1 cross-border transactions were equally split between inbound and outbound deals.

Industrials and IT dominate M&A activity across Europe – QoQ deal volume grew across most sectors in Nordics

Number of announced deals by sub-sector in Europe and Nordics
Q4 2020 vs. Q3 2020 & Q4 2019

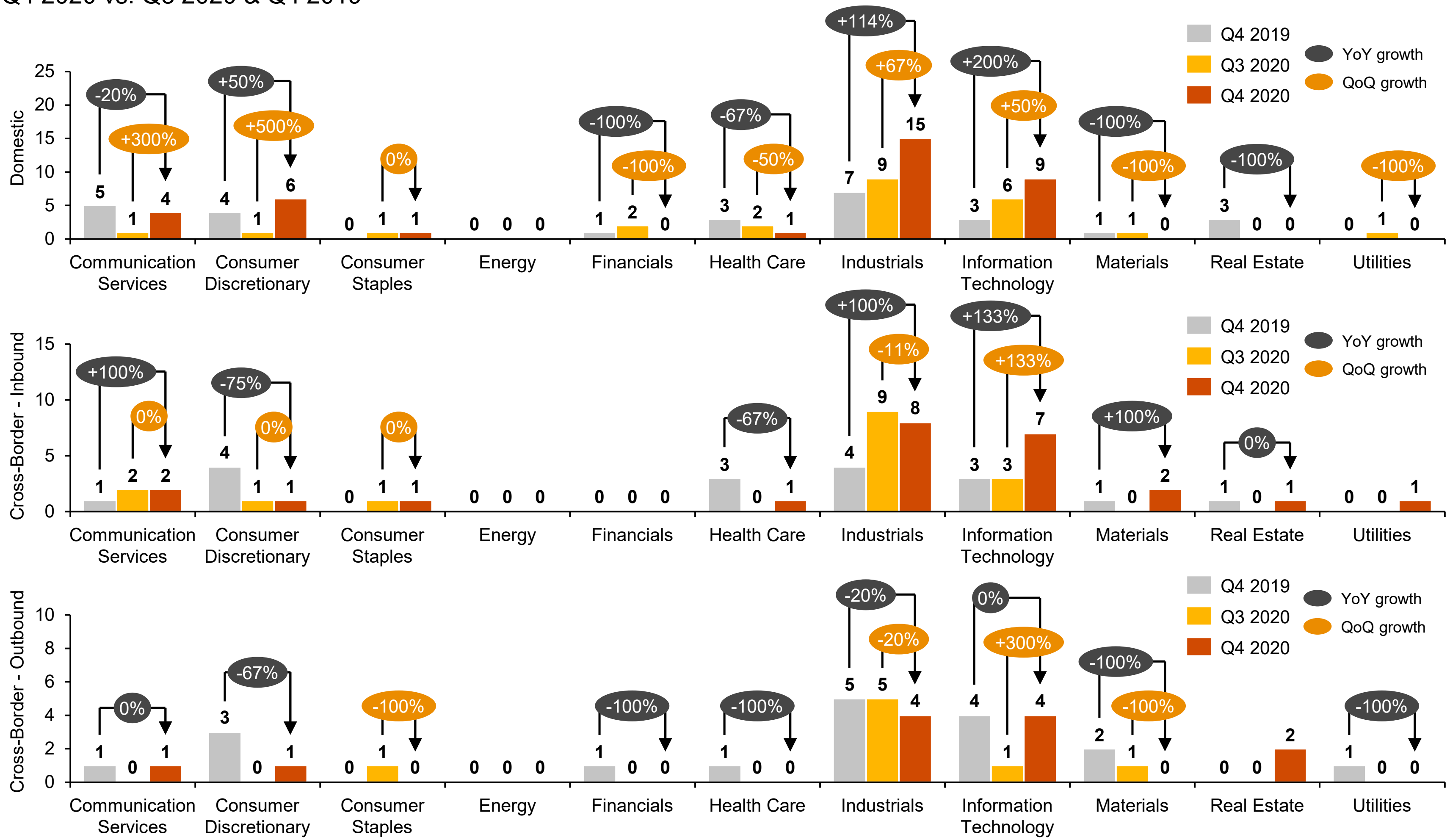


- Industrial and IT sectors continue their deal-making prowness with double-digit QoQ Q4 growth in Europe (excl. Nordics) and Nordics.
- Consumer Staples and Communication Services have shown renewed interest with visible improvement in activity over Q3 2020 and Q4 2019.
- On QoQ basis, all sectors across both regions showed volume growth. Nordic deal volume outpaced Europe (excl. Nordics) in most areas.
- Utilities, Real Estate and Materials were the only sectors to YoY declines in Europe (excl. Nordics). Nordic Real Estate sector activty grew on both YoY and QoQ basis.
- Strong growth in Industrials and IT point to increased activity in the coming quarters in 2021.

Source: S&P, PwC Analysis
Note: Sector classifications are based on MSCI GICS groupings.

Finnish deal activity focused on Industrials and IT – domestic deals account for much of M&A volume growth

Number of announced deals by sub-sector in Finland
Q4 2020 vs. Q3 2020 & Q4 2019

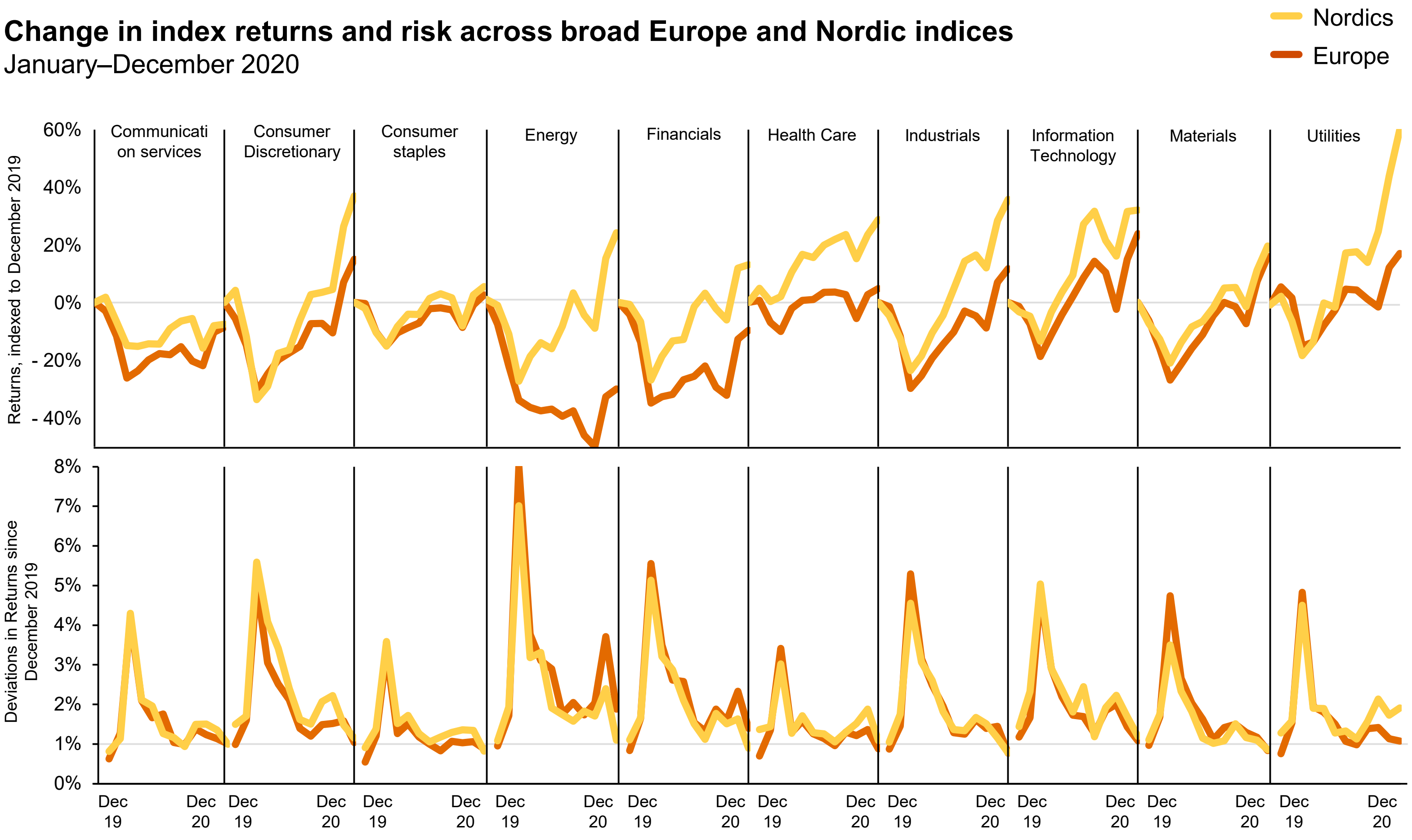


- M&A activity in Finland follows European trends in Industrials and IT with strong QoQ and YoY growth in deal volume.
- On QoQ basis, deal activity more than doubled in IT. Total cross-border activity outpaced domestic appetite.
- Industrial cross-border activity was more muted with QoQ levels declining. Domestic volume was up more than 60% on QoQ basis, while more than double Q4 2019 level.
- Communication Services and Consumer Discretionary sectors were the only ones showing some QoQ volume growth primarily driven by domestic deal-making.

Source: S&P, PwC Analysis
Note: Sector classifications are based on MSCI GICS groupings.

Valuations exceeding pre-COVID levels. Regional differences in valuations across sectors still prominent.

Change in index returns and risk across broad Europe and Nordic indices
January–December 2020



- Despite the systemic market correction in October, valuations reversed course quickly to end Q4 on a high.
- News of vaccine approvals and US Presidential election results reinvigorated broad market performance, with many sectors ending Q4 above December 2019 levels.
- Valuations in Energy, Financials and Health Care sectors continued to widen between Nordics and mainland Europe.
- Market-implied risk, measured as the deviation of returns in underlying index from December 2019 levels, have tapered further in Q4 2020, reaching pre-COVID levels of December 2019.

Source: S&P, PwC Analysis
Note: Sector classifications are based on MSCI GICS groupings. Data on Real Estate sector was not available.

What effects has COVID-19 had on sale and purchase agreements in Finland

Key changes in SPAs due to COVID-19

- Although Material Adverse Change (MAC) provisions have been rather common in share and business sale and purchase agreements (SPA) in Finland already before the outbreak of the COVID-19 pandemic, they have become even more common after the outbreak. Nowadays parties pay even more attention to whether or not events that are outside a party's control, such as epidemics and pandemics, should qualify as a MAC. Unless such market risks affect the target company disproportionately when compared e.g. to its competitors, usually such risks do not seem to qualify as a MAC.
- Force majeure clauses have not been seen as standard provisions in SPAs governed by Finnish law. However, we see COVID-19 to have increased their use in SPAs. Parties appear to have accepted the fact that COVID-19 is no longer an unexpected or unforeseen event and therefore it may not qualify as a force majeure event. On the other hand, SPAs have been seen to include COVID-19 specific clauses that allow suspending the transaction due to unexpected future developments resulting from COVID-19.
- There is a notable increase in the use of earn-out mechanisms compared to the pre COVID-19 time. Parties seem to be willing to share the potential post-deal risk caused by COVID-19 between each other.
- In some transactions with locked-box mechanisms, the losses resulting from COVID-19 after the locked-box date have been negotiated as a deduction from the target's enterprise value and thus treated as a debt-like item.
- Uncertain liquidity situation combined with stockpiling of cash led to the last twelve months working capital amounts being higher in the spring of 2020. The effects of the delayed vaccination and possible variants of the coronavirus might have a similar effect in the upcoming months.
- Parties have prepared themselves for unexpected delays in satisfying conditions precedent, which we see as extended long stop date periods.

We believe there will be many new M&A opportunities during and after the COVID-19 crisis

Many new opportunities will emerge in the time of COVID-19 and deals will reshape industries. Below are selected highlights of ways how deal making might look like after the COVID-19.[1]

Cash-driven wave of deal activity with rich valuations
While some players might be selling businesses in the need of cash, we expect to see a wave of deal activity driven by cash-rich buyers. Corporates have large amounts of cash and private equity is sitting on a pile of dry powder. Now buyers will likely be willing to pay high multiples for only the strongest companies.

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.

Differences between sectors
The effect of the COVID-19 crisis on certain sectors will be permanent. Travel and leisure are sectors where transactions might be the only way out of the crisis. 'The new normal' might encourage strong businesses to adapt to change through acquiring underperforming competitors or parts of their supply chain.

Reshaping the sector landscape
Combination of potentially deteriorating market outlook and relatively high valuation levels opens the door for consolidation play. We expect a significant increase in public to public and PTOs due to seek for increased buffers and maneuvering space.

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.

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.

Note: 1) Read more on how deal making after COVID-19 affects corporate strategy
Source: Strategy&, PwC

Contact us

Hannu Suonio
Partner
Clients & Markets Leader
+358 20 787 8552
hannu.suonio@pwc.com

Kauko Storbacka
Partner
Advisory Leader
+358 20 787 8745
kauko.storbacka@pwc.com

Ilkka Simula
Partner
Transaction Services Leader
+358 20 787 8522
ilkka.simula@pwc.com

Kimmo Vilske
Partner
Corporate Finance Leader
+358 20 787 7938
kimmo.vilske@pwc.com

Netta Mikkilä
Partner, Accounting Consulting Services Leader
+358 20 787 7386
netta.mikkila@pwc.com

Michael Hardy
Partner
Transaction Services
+358 20 787 7442
michael.hardy@pwc.com

Marko Koski
Partner
Transaction Services
+358 20 787 8745
marko.koski@pwc.com

Antti Palkén
Partner
Debt and Fund Advisory
+358 20 787 7281
antti.palken@pwc.com

Sari Elonheimo
Partner
Accounting Consulting Services
+358 20 787 7289
sari.elonheimo@pwc.com

Eveliina Paavilainen
Partner
Transaction Services
+358 20 787 7139
eveliina.paavilainen@pwc.com

Riikka Saari
Partner
Transaction Services
+358 20 787 8622
riikka.saari@pwc.com

Hannu Keränen
Partner
Corporate Finance
+358 20 787 7951
hannu.keranen@pwc.com

Markku Hakkarainen
Partner
Tax Leader
+358 20 787 7774
markku.hakkarainen@pwc.com

Ismo Saari
Partner
Transaction Services
+358 20 787 8604
ismo.saari@pwc.com

Mikael Österlund
Partner
Transaction Services
+358 20 787 7838
mikael.osterlund@pwc.com

Juuso Laatikainen
Partner
Strategy& Leader
+358 20 787 8554
juuso.laatikainen@pwc.com

Joni Painilainen
Partner
M&A Legal
+358 20 787 8803
joni.painilainen@pwc.com

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