

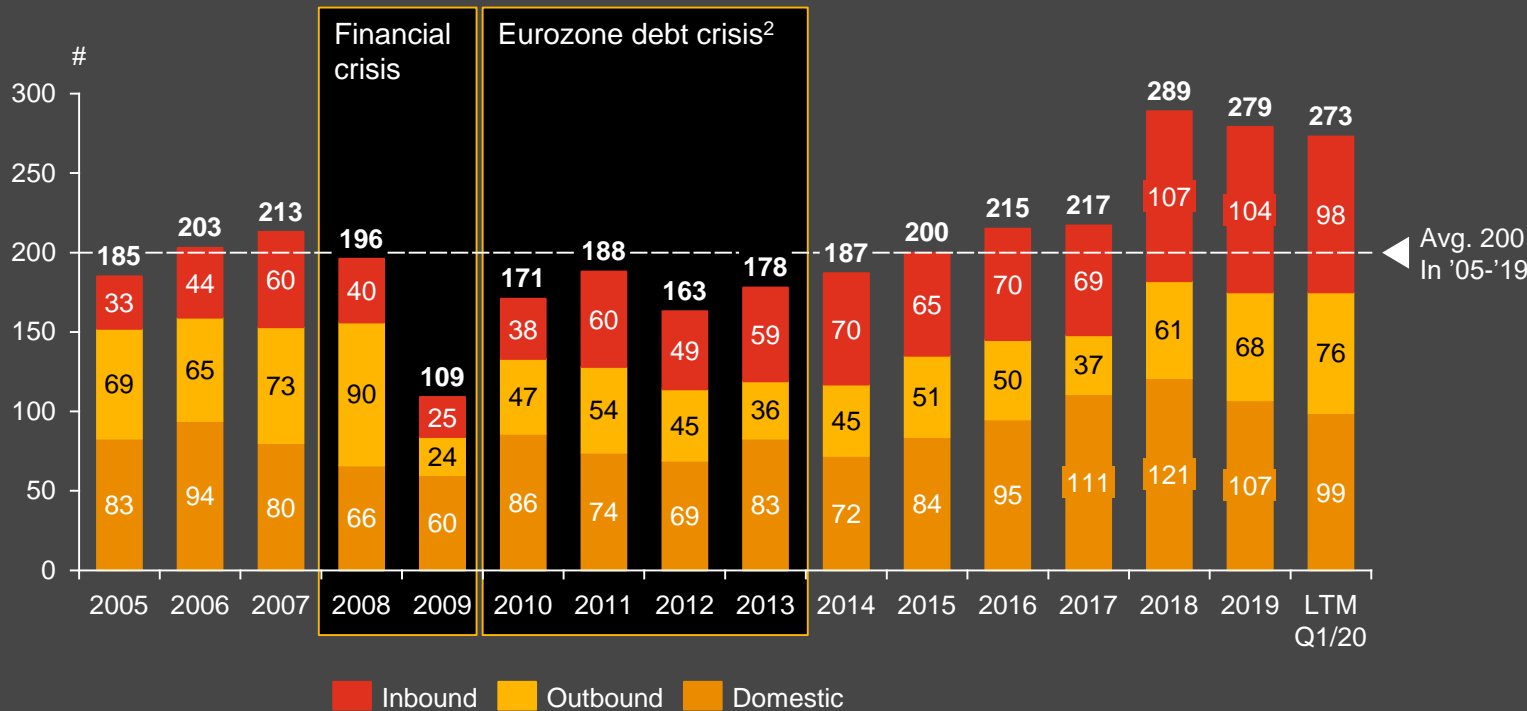
Diamonds in the rough?

Finnish M&A market update, vol. 1
May 2020



Finnish M&A market experienced strong growth in the last decade, COVID-19 crisis will drive deal volumes down

M&A transaction volumes in Finland¹
2005 – LTM 2020



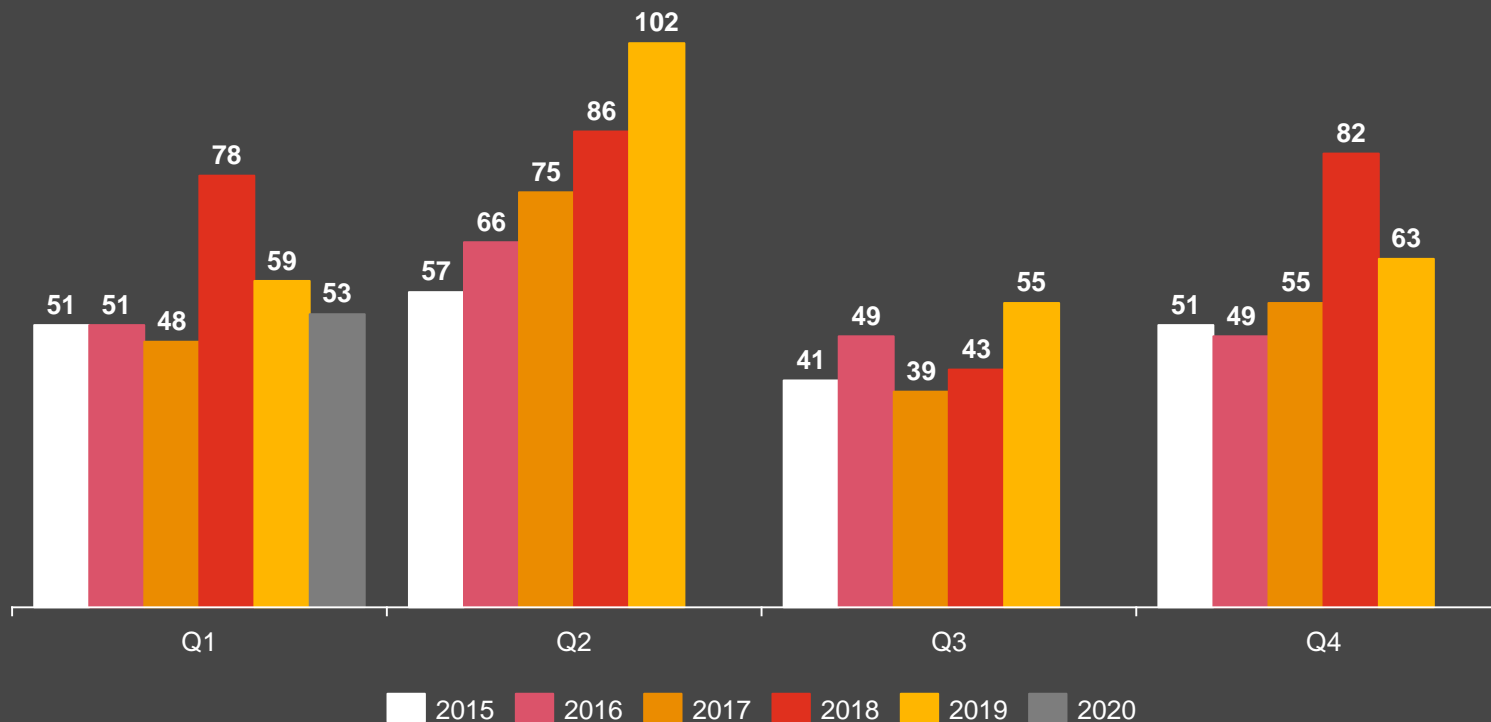
Finnish M&A activity set record-highs in 2018 and 2019 – COVID-19 will drive volumes down

- Since the past crises – the financial crisis and the Eurozone debt crisis – the deal volumes grew strongly and peaked in 2018-2019
- In the financial crisis, volumes almost halved within a year in 2008-2009, but recovered in two years
- After the financial crisis central banks started to decrease interest rates and the trend has continued until today, fueling the dealmaking activity
- Financial turmoil took place also in the Eurozone debt crisis, which resulted in -13% decline in deal volumes in 2012. Since then the growth has been strong
- Domestic deals were the most resilient in 2009 and roughly doubled from 60 in 2009 to 121 in 2018 during the current cycle (~2x).
- Inbound activity more than quadrupled from 2009 to 2018-2019 while outbound roughly tripled
- 2018 was the peak year, but 2019 was almost as good – both with extraordinary levels of deal activity, particularly cross-border

Note: 1) Announced transactions with value of greater than 5 M€. 2) Eurozone debt crisis has taken place since 2010 for the entire decade, but most impact on financial markets was seen during 2012-2013. 3) Domestic deals refer to deals where both, target and buyer are based in Finland. Inbound deals refer to deals where a Finnish firm is acquired by a foreign acquirer. Outbound refers to deals where a Finnish firm acquires a foreign target
Source: Mergermarket, PwC analysis

The COVID-19 pandemic escalated in March, but only had a marginal impact on announced Q1 deal volumes

Quarterly M&A transaction volumes in Finland¹
2015 – Q1 2020



The COVID-19 pandemic had a minor impact on Q1 deal volumes, but is expected to significantly impact what is usually the most active second quarter

- Deal activity has grown particularly rapidly in Q2 y-o-y and has accounted for 30-40% of annual deal volumes
- The COVID-19 pandemic is expected to have a substantial impact on dealmaking in the short term due to the following:
 - The initial shock and continued high volatility on the stock market – it will take time to find the new valuation level and for the market to adjust to it
 - An uncertain outlook for both economies as a whole and target businesses – however with large variation between different sectors
 - The availability and cost of debt finance
 - The restrictions on mobility hindering negotiations
- As a result, we expect the Finnish deal activity to decline significantly in Q2 2020

Note: 1) Announced transactions with value of greater than 5 M€.
Source: Mergermarket, PwC analysis

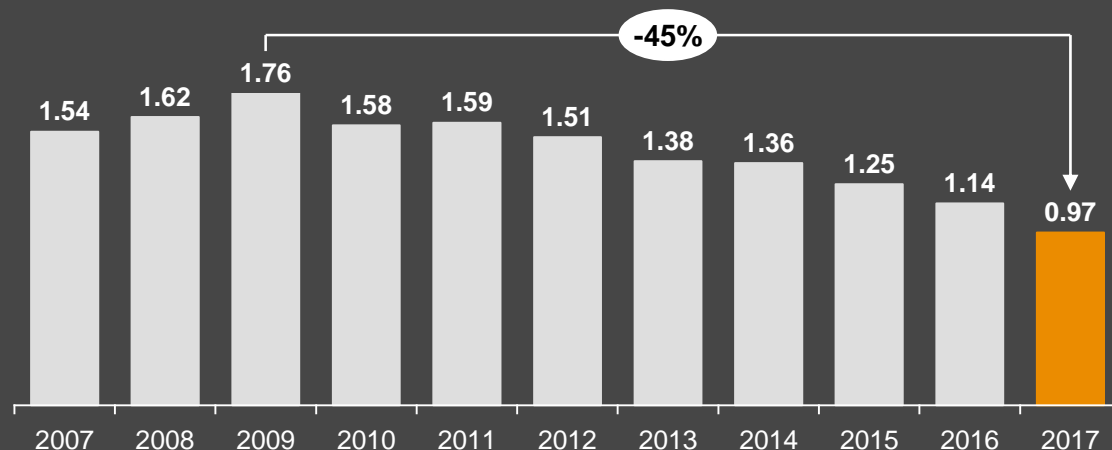
The previous deal downturn provided the best returns for PE firms – similar opportunities may rise from current crisis

The best performing PE vintages were acquired during the last downturn at lower entry valuations

- Our analysis shows that the previous deal downturn in 2009-2012 provided the best returns for PE firms
- During recent years, acquisition prices have been at an all-time high due to a very active dealmaking market
- This has led to a trend where PE buyout median returns by vintage year have fallen from an high in 2009
- The current crisis creates an unique opportunity for PEs to make new acquisitions and to reassess their portfolios

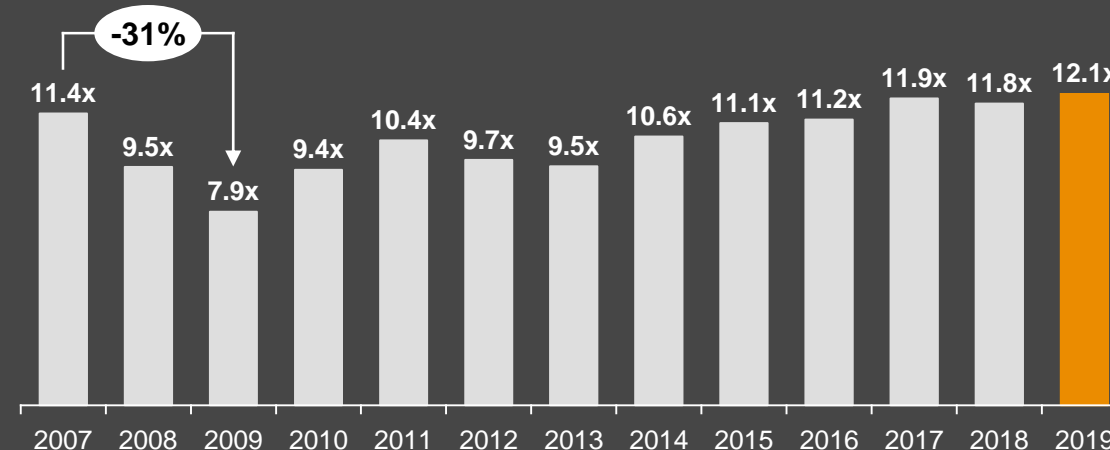
Median deal returns TVPI¹

US & Europe 2007 – 2017 by vintage year



Median EBITDA multiple of European private equity transactions

2010 - 2019



Note: 1) TVPI: ratio of Total Value to Paid in Capital, i.e. a measure of return on capital.

Source: Mergermarket, Preqin, Pitchbook, PwC Strategy & Analysis, PwC Creating value beyond the deal: private equity <https://www.pwc.com/gx/en/services/advisory/deals/deals-report/private-equity.html>

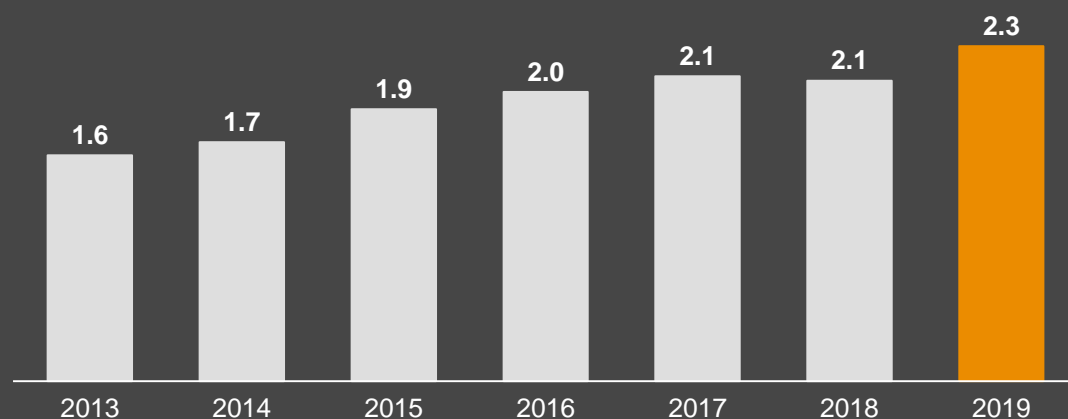
Corporates have record amounts of cash on their balance sheets – downturns can provide higher returns for dealmakers

Corporates have large amounts of cash...

- Although, deal volumes are likely to decrease in the short-term global corporates have record amounts of cash on their balance sheets
- Combined with central banks continued low interest rate regimes, attractive dealmaking opportunities may unfold for well-funded corporates in the near future

Corporate cash holdings of S&P Global 1200 index companies¹

2013 – 2019, Trillion €

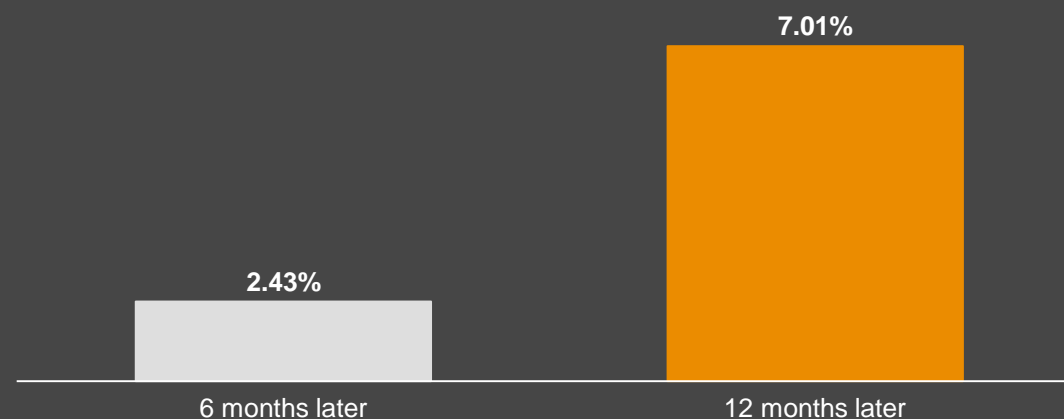


... and downturns can provide better returns for bold buyers

- In the recession from March to November 2001, marked by the dot-com bust, the median shareholder returns for companies that made acquisitions outpaced their respective industries in the following months, rising as high as 7% one year after the transaction was announced
- Hence, being bold during difficult times can create long-term benefits for the acquirer

Median returns for each deal vs. relevant S&P 1500 sector index²

%

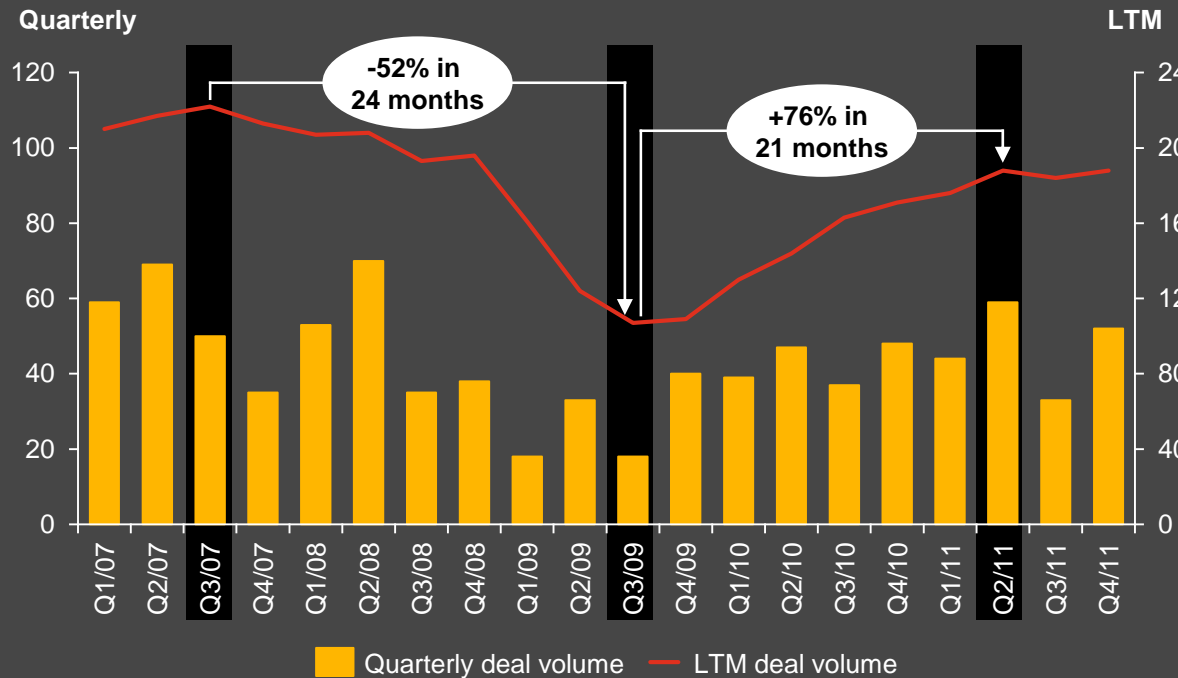


Note:1) Corporate cash holdings are based on 1004 companies of the S&P Global 1200 index (excluding financial companies such as banks and insurance companies). 2) Public companies' shareholder returns following the announcement of the transaction compared to the S&P 1500 sector index performance.

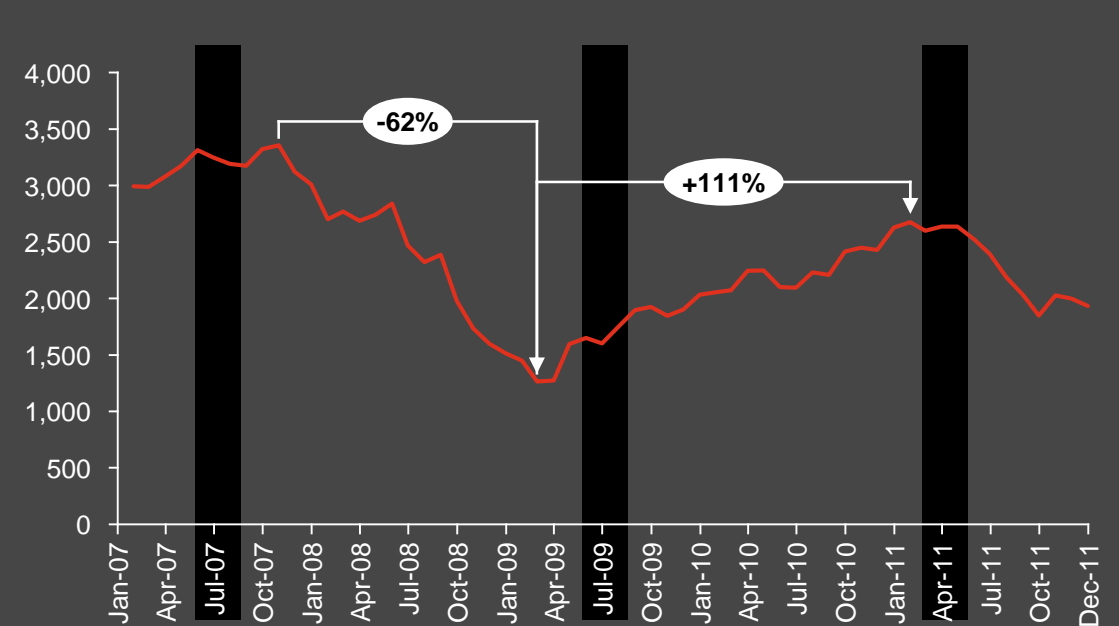
Source: Capital IQ, PwC analysis, <http://explore.pwc.com/succeeding-through-mna-in-uncertain-times/618883-2020-state-of-9>

During the financial crisis, deal volumes declined by ~50% but rebounded in less than 2 years to near-record levels

Quarterly M&A transaction volumes in Finland
2007 - 2011



OMX Helsinki 25 performance
2007 - 2011

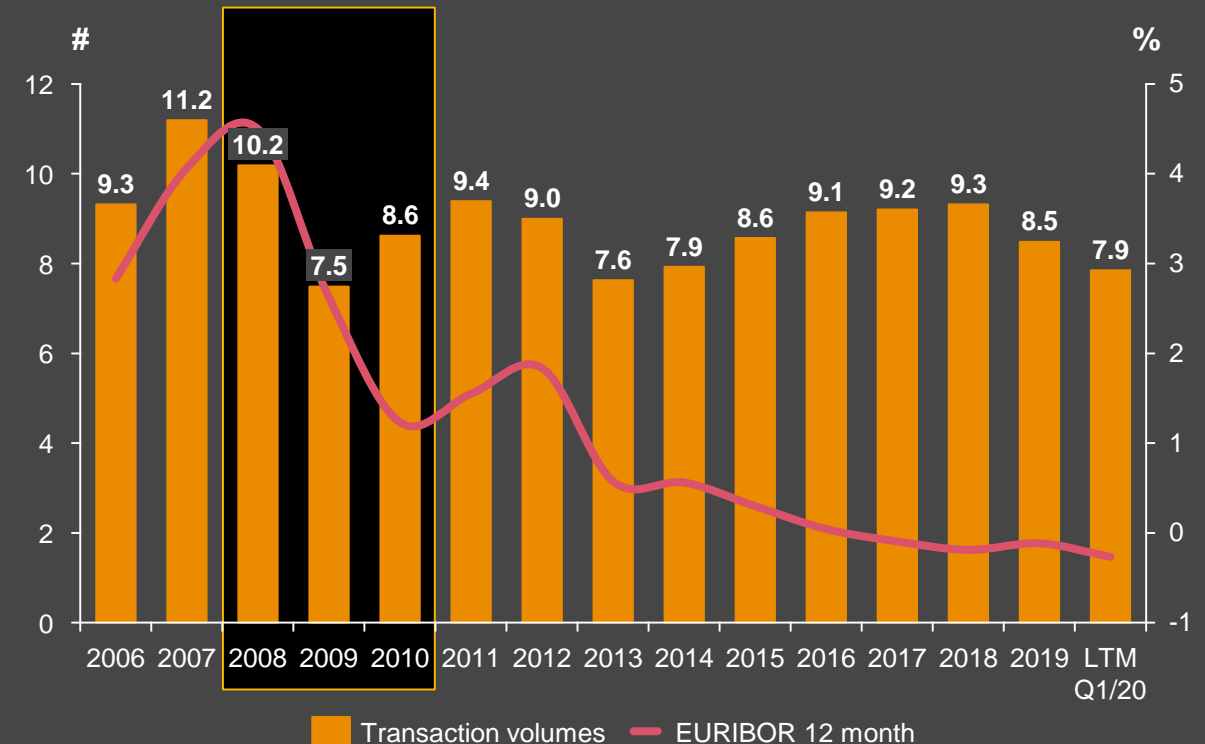


Source: Mergermarket, Capital IQ, PwC analysis

After the financial crisis M&A activity recovered after 1-2 years – recovery may be faster due to historically low interest rates

- The economic impact of COVID-19 has been unprecedented – the real economy has partially shut down "overnight", with an unusually rapid increase in unemployment, and equity market declines of ~20%
- The impact has also been felt in dealmaking, we are expecting M&A volumes to decline significantly in Q2/2020 vs. Q2/2019
- The uncertain times can, however, present unique opportunities for those bold dealmakers that are well positioned to reap the benefits of the current downturn, supported by the outlook of central banks continued low interest rate regimes
 - Data shows that PE firms have large amounts of untapped capital and that the best returns were made on those early investments timed as economies emerged out of recession
 - Corporates also have access to large amounts of capital and data shows that acquisitions made during weak economic times can outperform deals done during bumper years
- The M&A transaction volumes rebounded fairly quickly after the last downturn and given that dealmakers are currently well positioned, we could see M&A volumes recovering quickly

Development in number of transactions in Europe and EURIBOR rate¹
2006 – LTM Q1/2020, in thousands



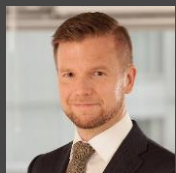
Note: 1) Closed transactions with a value greater than 10 M€, if transaction value not available then target revenue greater than 10 M€, percentage sought greater than 80%
Source: Capital IQ, Bank of Finland, PwC analysis



Contact us



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



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



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



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



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



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



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



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



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



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



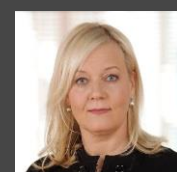
Markku Hakkarainen
Partner
Tax Leader
+358 20 787 7774
markku.hakkarainen@pwc.com



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



Hannu Suonio
Partner
Strategy &
+358 20 787 8552
hannu.suonio@pwc.com



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



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



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