

Finnish M&A market update

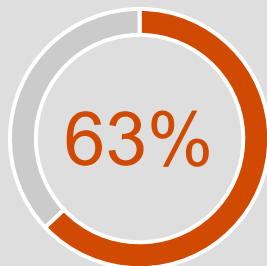
December 2023



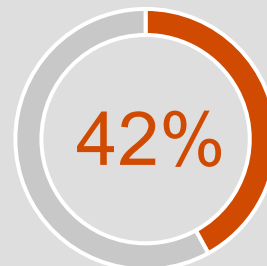
Finnish M&A market key highlights

As we approach the end of year 2023, it is time to take a closer look at the outlook of the Finnish M&A market. We have gathered statistics on M&A activity in Finland and interviewed PwC Finland's leading M&A experts to highlight recent key themes. While the current year has posed various challenges, there are clear signals pointing towards a potential shift in the market for the upcoming year.

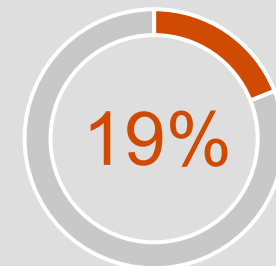
- Smaller deals have been driving the Finnish M&A market with the help of occasional mega-deals
- The increasing trend of strategic reviews and divestments is expected to continue during 2024 as companies are assessing their optimal structure and focusing on their core operations
- As company valuations have declined, it is possible that we will see an increasing number of public tender offers in the near future
- 2024 will provide opportunities for the parties with a robust capital structure and capability to act quickly when opportunities arise



The portion of domestic deals during Q3 2023



The average premium paid in PTOs during YTD 2023



Average revenue under strategic assessment in recently announced strategic reviews

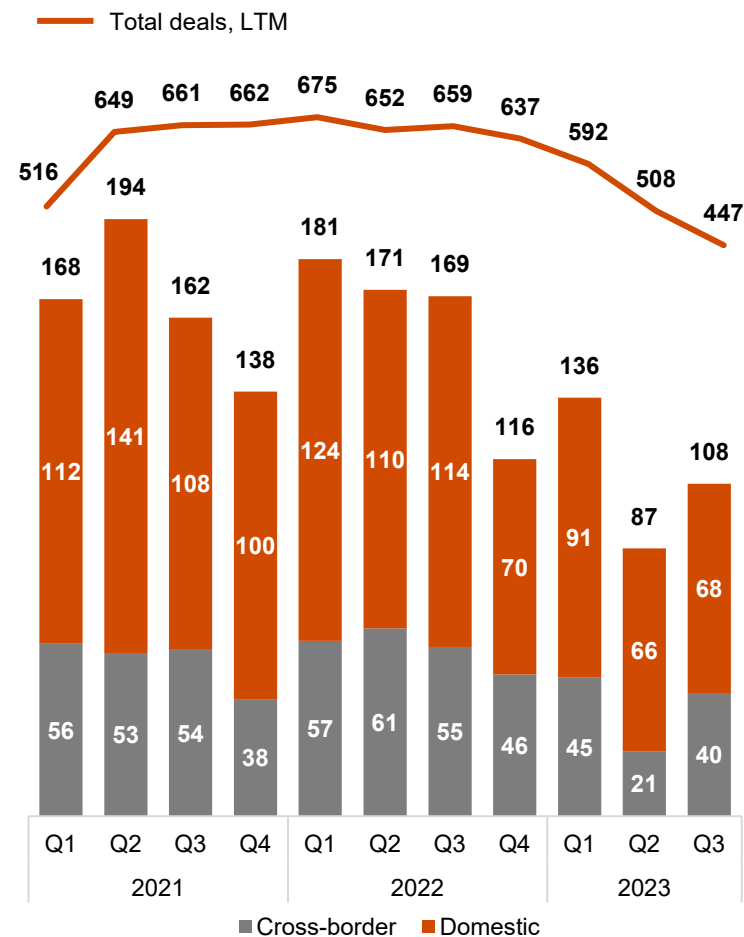
Finnish M&A market activity was driven by smaller deals

“ Smaller deals have been driving the market but we have also seen several mega deals during 2023

Key takeaways

- The Finnish M&A market has shown encouraging signals during the Q3 2023 as the deal count has increased from Q2. However, the number of deals is still below average as inflation and interest rates continue to be at a high level.
- The situation in the market is quite bipolar. While smaller deals drive the market, we have also seen several mega-transactions throughout 2023.
- Current trend is that transaction processes are held without time pressure and with a limited number of potential buyers, causing the transaction processes typically to extend. Consequently, deals that should have been closed during Q2 have been closed in Q3. This extension in timeline can be seen as one of the reasons behind the surge in the number of transactions during Q3 2023.
- Private equity investors have been relatively inactive in the current market due to the impact of increased interest rates affecting them. It seems that they are not interested to consider divesting their best assets at current market conditions. However, they do have an increased amount of “dry powder” available for future opportunities, which can be anticipated to be one factor driving the market during 2024.
- While there exists a gap between acquirer and seller expectations regarding target valuations, there are signs of this gap starting to narrow down. This could suggest a potential increase in transaction volumes in the near future.
- 2024 can be expected to provide great opportunities for parties with robust capital structure and the ability to seize opportunities quickly as they arise. Looking ahead, we expect megatrends such as urbanization and ESG to be driving forces behind transactions when the economic outlook becomes clearer.

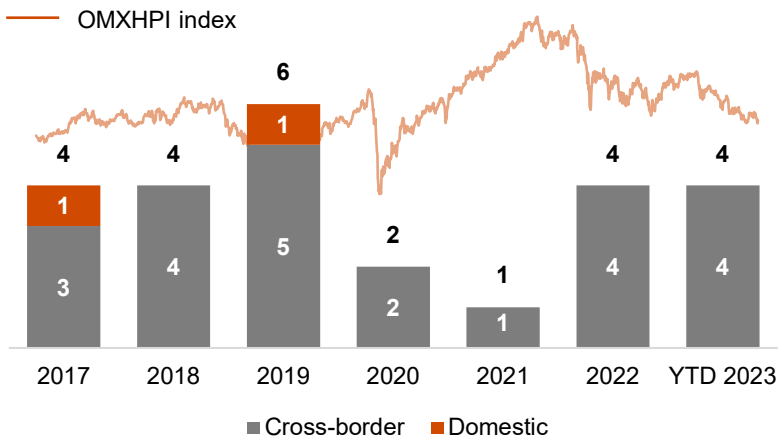
Quarterly transaction volumes in Finland



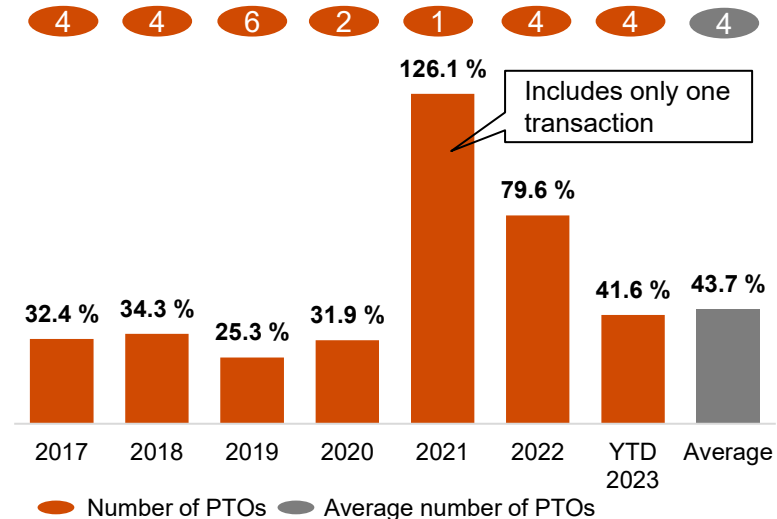
Source: Talouselämä, PwC analysis

Foreign buyers dominate the Finnish PTO market

Number of successful PTOs



Premiums paid in successful PTOs



The unique market situation combined with decreased valuation multiples present a variety of possibilities

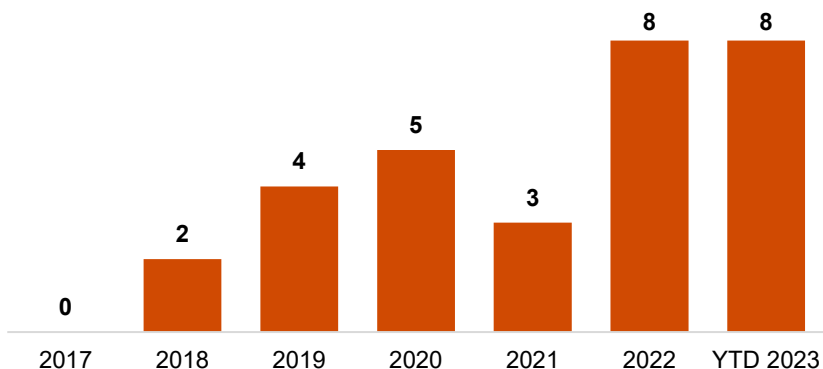
Key takeaways

- By the end of the November 2023, four successful public tender offers (PTO) have emerged, aligning with the average trend from 2017 to 2023. We have also witnessed competitive situations that have led bidders to increase their initial offers. Among these, Uponor's PTO stands out as one of the largest in recent years with a value of nearly EUR 2.1 billion.
- A clear trend is emerging, characterized by foreign parties acquiring Finnish companies that are considered undervalued, possessing innovations or capabilities that could be utilized globally.
- Over the last seven years, only two successful PTOs have been executed by Finnish buyers. When comparing deal values, cross-border buyers represent over 97 percent of all takeovers during 2017-2023.
- The relatively constrained number of domestic deals can be explained by the limited availability of financial resources and practical challenges associated with executing large PTO transactions within the domestic landscape. Additionally, the majority of public companies in Finland operate globally, diminishing the importance of deep local knowledge.
- However, the current valuation levels require higher premiums to be paid, since average premiums of 20-30 percentage might not meet shareholder expectations.
- The role of an anchor investor is significant in the current market situation when considering the possibility for successful PTO.

Divestiture activity has increased in Finland

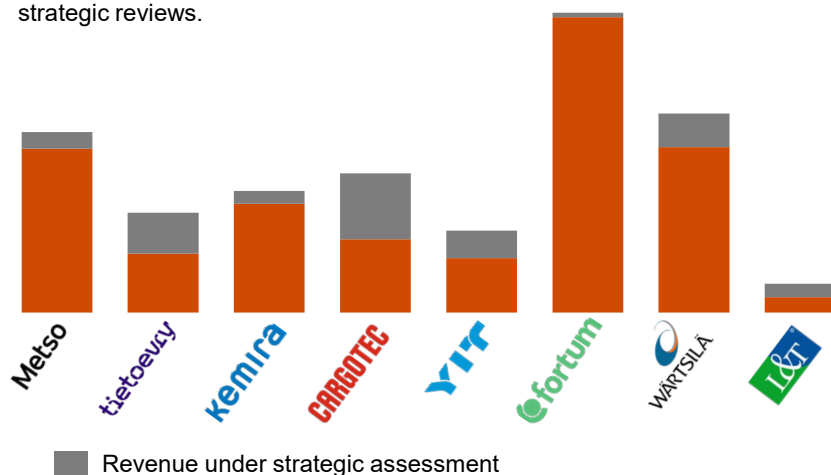
Number of strategic reviews announced

Includes public companies that have announced strategic reviews.



Portion of revenue under strategic review

Includes selected companies that have recently announced or ongoing strategic reviews.



Many companies have decided to concentrate on core operations

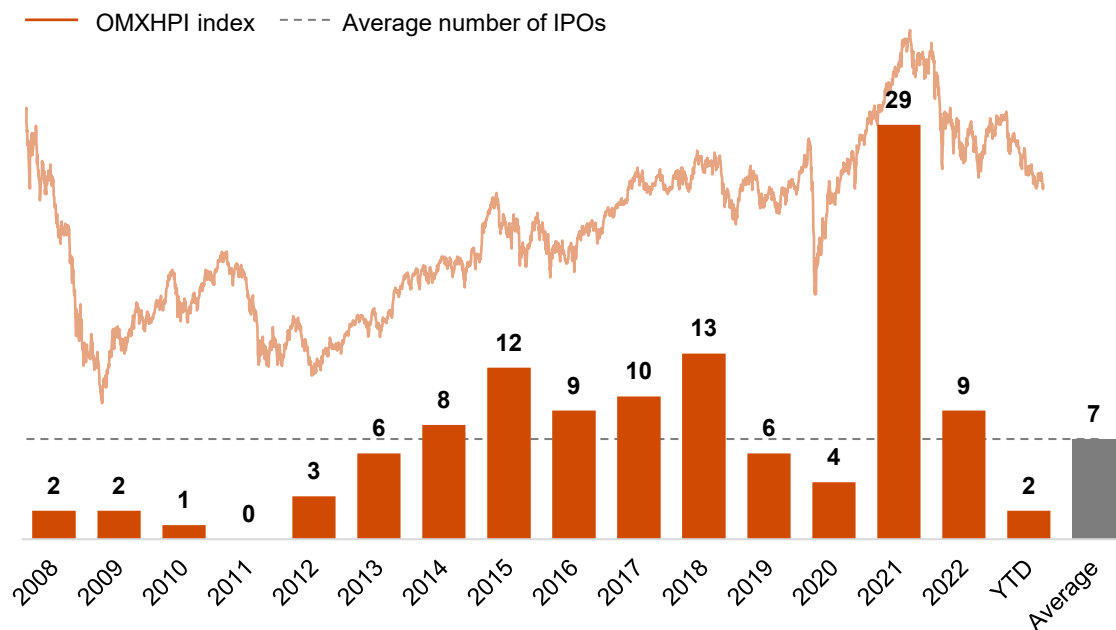
Key takeaways

- By the end of November, eight new strategic reviews have been announced, including large companies such as Cargotec, Wärtsilä, and Fortum. Simultaneously, strategic processes initiated before 2023 are in progress.
- In 2022, divestments were mainly driven by shutdowns in Russia. However, this year companies are making their decisions based on prevailing market conditions. Consequently, the businesses under review are larger in size compared to previous years.
- In Finland, carve-out activity has faced a strategic shift, while companies focus more on core competencies. At the same time investors are interested to capitalize on opportunities arising from divestitures.
- Uncertain market conditions have led companies to reassess their operations. Finnish companies can be seen releasing an increasing number of strategic reviews to reorganize their business and focus on main operations.
- In comparison to previous years, strategic reviews are more likely to result in actual divestments or carve-outs. The significance of carve-outs and divestitures becomes highlighted during economic uncertainty, while other M&A activity is at a lower level.

Many companies are waiting for the IPO window to open

“ The recent slowdown in activity has created an opportunity for savvy investors to ready their companies for IPO once the window opens

Number of IPOs



Data includes special transactions such as dual and reverse listings. Data excludes transfers between Finnish lists and should be treated as non-exhaustive.

Key takeaways





- Finnish IPO activity has experienced a significant slowdown. By the end of Q3 2023, the only notable events were the technical listing of Pohjanmaan Arvo Sijoitusosuuskunta and the spin-off of Mandatum from Sampo. Additionally during Q4, we observed the transfer of Lamor Oyj from First North to the Main Market of Nasdaq Helsinki.
- However, the activity levels align with the global landscape, where the value of IPOs has decreased by 32 % compared to Q3 2022.
- While the IPO market remains relatively quiet, numerous companies are positioning themselves for listing. Many IPO readiness activities have been made as organizations strategically position themselves for the upcoming market environment.
- Private equity companies are closely monitoring their portfolio companies and different possibilities in the market.
- Consequently, an increase in IPO market activity can be expected in the near future if the economic outlook and interest rates stabilize.
- However, it is highly unlikely that we will witness a repeat of the 2021 IPO boom which was supercharged by negative interest rates and low inflation.



More information about the IPO market in our IPO Watch Europe Q3 2023 release

Considerations for deal makers for the upcoming months

The market situation has been challenging for many parties. However, it also presents opportunities for those willing to seize them. Here are few important considerations essential for operating in this market environment:

-  **Boldly capture the opportunity presented by the current market environment**
The best deals are often made during challenging times. A challenging market environment offers an opportunity to develop and make important strategic decisions.
-  **Be aware of the current situation**
Companies should be creative in how they develop their operations and build future strategies in order to maintain or improve their position in the market.
-  **Be prepared to take action**
The market turnaround can happen swiftly and companies wanting to benefit from the situation need to be ready to take action quickly when the window is open.
-  **Assess funding alternatives**
Consider different sources of funding and alternatives for maturity. While funding is available, it is essential to analyze the development of associated costs.

Supporting you in your transactions



PwC Finland's Advisory Lead



Kimmo Nieminen
Partner
+358 20 7877504
kimmo.nieminen@pwc.com

Deals & Private Equity Lead



Ilkka Simula
Deals Strategy Partner
+358 20 7878522
ilkka.simula@pwc.com

Strategy&



Juuso Laatikainen
Partner
+358 20 7878554
juuso.laatikainen@pwc.com



Jussi Lehtinen
Partner
+358 20 7878756
jussi.lehtinen@pwc.com



Tuomas Törmänen
Partner
+358 20 7878736
tuomas.tormanen@pwc.com

Transaction Services



Mikael Österlund
Partner
+358 20 7877838
mikael.osterlund@pwc.com



Eveliina Paavilainen
Partner
+358 20 7877139
eveliina.paavilainen@pwc.com

Capital Markets & Accounting Advisory Services



Netta Mikkilä
Partner
+358 20 7877386
netta.mikkila@pwc.com



Sari Elonheimo
Partner
+358 20 7877289
sari.elonheimo@pwc.com

Tax



Markku Hakkarainen
Partner
+358 20 7877774
markku.hakkarainen@pwc.com

Valuation and Debt & Capital Advisory



Antti Palkén
Partner
+358 20 7877281
antti.palken@pwc.com



Matias Lindholm
Partner,
+358 20 7877885
matias.lindholm@pwc.com

ESG



Jussi Nokkala
Partner
+358 20 7878189
jussi.nokkala@pwc.com

M&A Integration & Separation



Marko Koski
Partner
+358 20 7878745
marko.koski@pwc.com

Real Estate



Jeroen Bus
Partner
+358 20 7877886
jeroen.bus@pwc.com

Corporate Finance



Kimmo Vilske
Partner
+358 20 7877938
kimmo.vilske@pwc.com



Hannu Keränen
Partner
+358 20 7877951
hannu.keranen@pwc.com

Legal



Elina Kumpulainen
Partner
+358 20 7877907
elina.kumpulainen@pwc.com

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