

# Finnish M&A market update Q1 2024

May 2024



# Finnish M&A market in Q1 2024

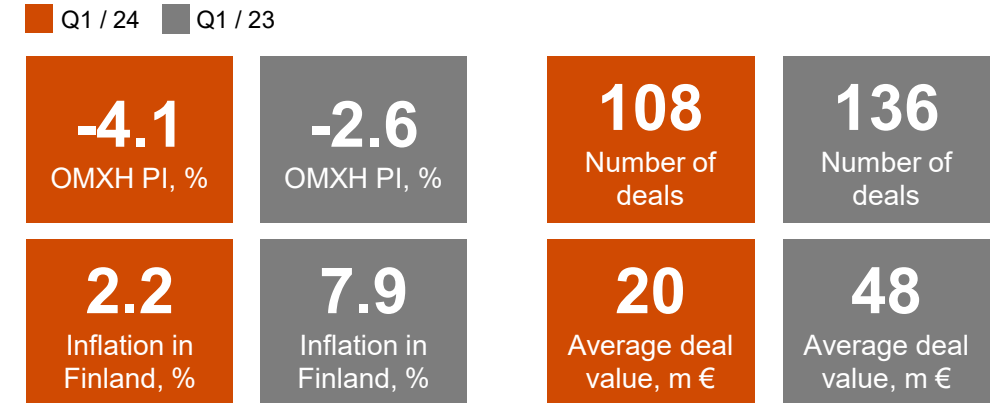
## Finnish M&A market overview

After the first quarter of 2024, we summarise the events in the Finnish M&A market and anticipate the outlook for the rest of the year. We have gathered data on M&A activity in Finland and interviewed leading M&A experts from PwC Finland to highlight recent key themes. Despite the challenges that continued during Q1 2024, there are signals indicating increasing activity levels for the upcoming year.

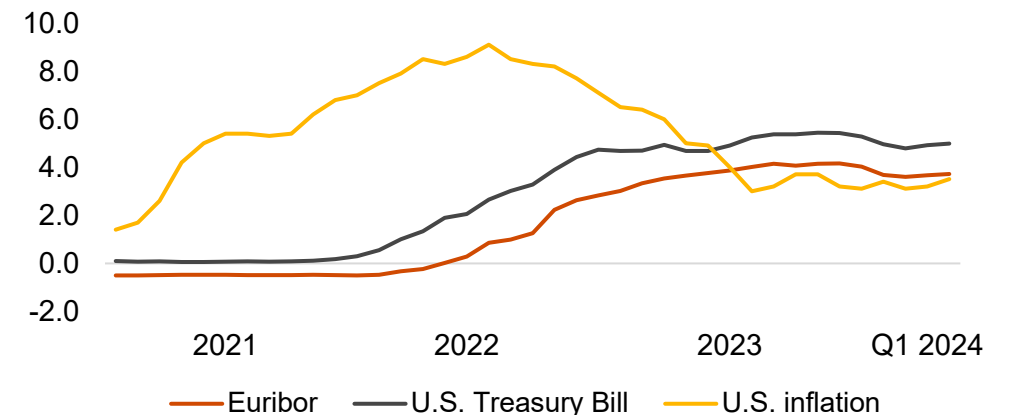
## Key observations from our report

- Smaller deals continued to drive the Finnish M&A market, but there are also bigger deals in preparation waiting for the economic outlook to stabilise. Private equity companies are monitoring the market carefully, and they also have numerous mature companies in their portfolios, which are to be sold once the outlook brightens.
- The quietness in the IPO market continued in Finland throughout the first quarter, but for example in Europe Q1 saw the highest IPO proceeds raised since Q1 2021. We expect the IPO market to gradually pick up in Finland during the second half of the year, and in 2025 we believe to see several IPOs.
- Strategic reviews and public tender offers (PTO) continued during the first quarter. Continued low valuation levels indicate that we might see more PTOs with higher premiums during the year.
- We are currently in a downturn, but the conditions for a turnaround are in sight as interest rates and inflation have started to stabilise or even decrease. Finland usually lags slightly behind the cycle, so the positive effects of the economic turnaround will be visible to us a little later.

## Local key figure comparison



## Global key figures, %



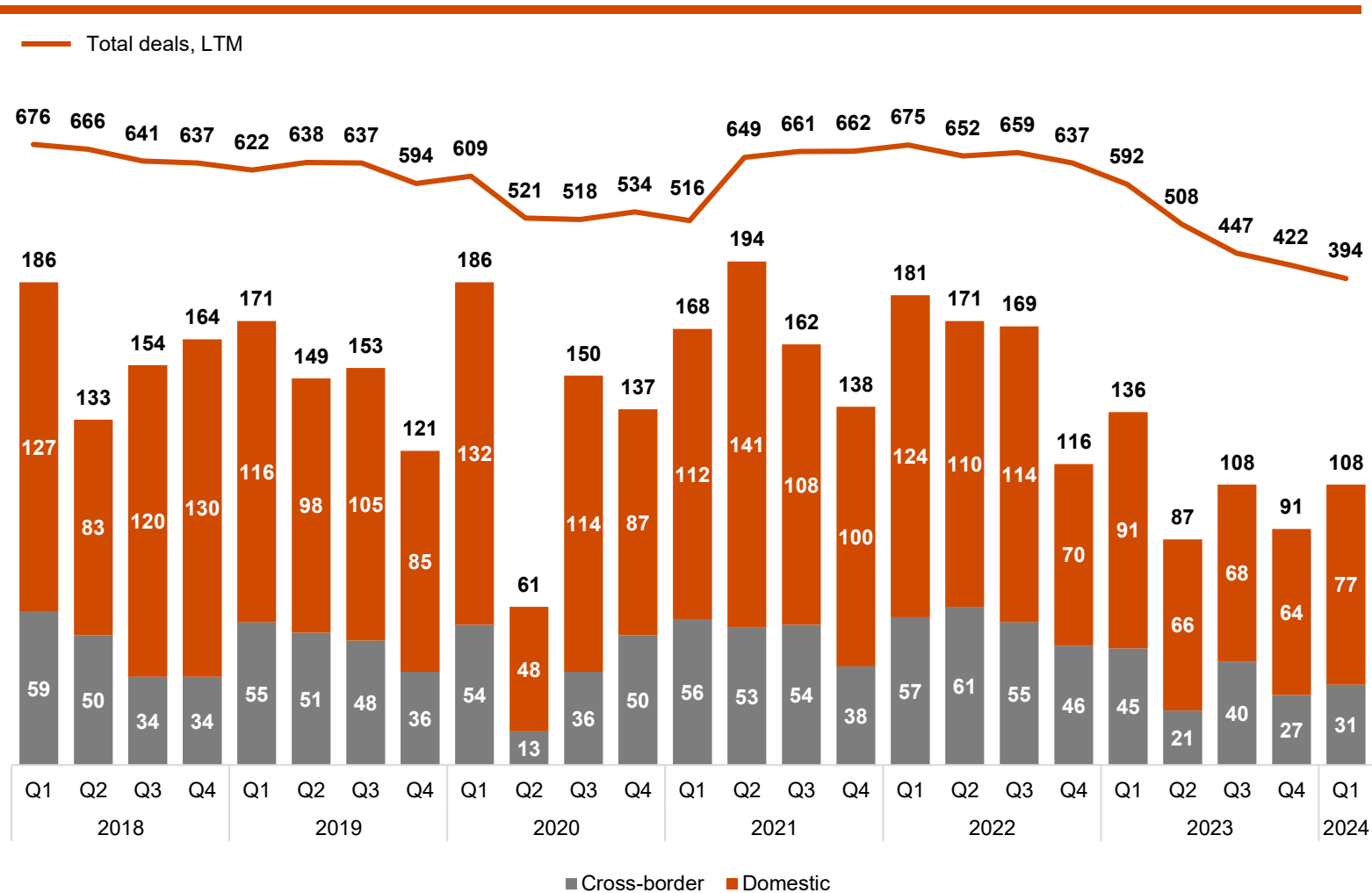
# Deal activity remained at a low level during Q1

“ Decreasing trend in rolling 12 months deal count continued

## Key takeaways

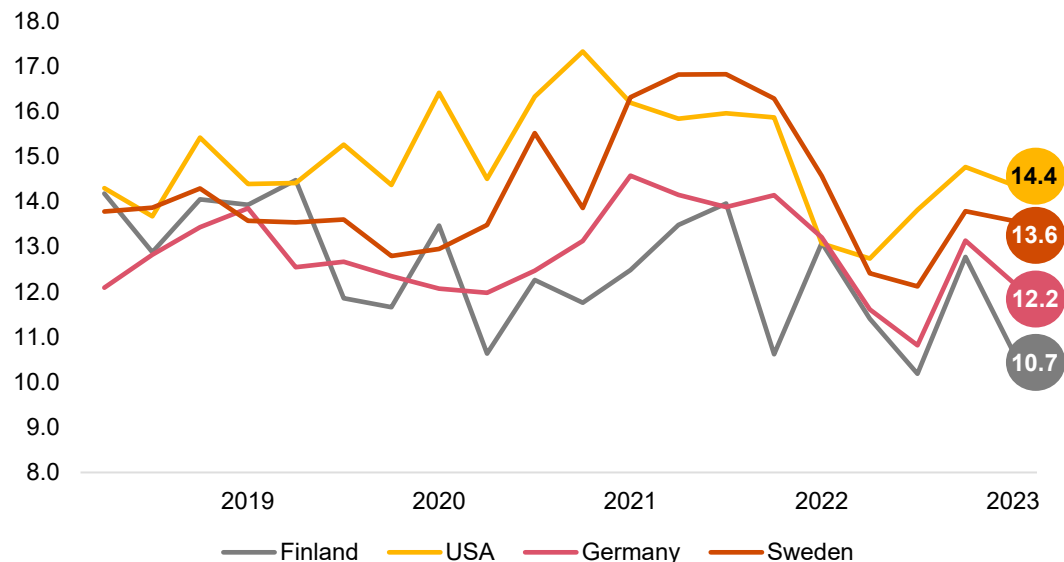
- The number of deals decreased compared to Q1 2023 but increased compared to Q4 2023. The rolling 12-month deal count has now decreased for six consecutive quarters.
- Private equity investors have been relatively inactive in the current market situation due to higher interest rates and unclear economic outlook. This has had a decreasing effect on deal volumes.
- Transaction processes are held without time pressure and with a limited number of potential buyers, causing the transaction processes, especially the bigger ones, typically to extend.
- However, the prevailing situation in the M&A market is not exceptional as we are currently in a downturn when the transaction volumes are lower.

Quarterly transaction volumes in Finland



# EV/EBITDA and P/E multiples reflect low valuation levels

Average EV/EBITDA by region



Average EV/EBITDA by region, 2019-2023



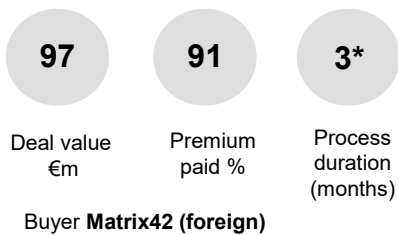
“ Valuation levels are at the lowest levels for years in Finland

Key takeaways

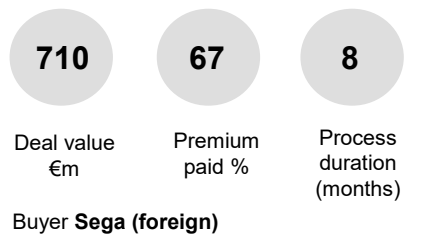
- The valuation levels are historically low in Finland, compared to both historical averages and peer countries. For example, the median P/E ratio of Helsinki Stock Exchange is around 16, whereas the median over the last five years has been around 20. Low valuation levels are not limited only to public companies.
- Average EV/EBITDA ratio is also below five year average and it was 10.7x at the end of the year 2023. In Sweden the ratio was 12.2x and in the USA 14.4x, which indicate that Finnish stocks are currently discounted.
- The current valuation levels have multiple effects as they do not motivate companies to go public, and sellers are not willing to sell their assets at the current price level. However, from the buyer’s perspective, the market condition continues to be attractive.
- Due to lower valuation levels, more contingent consideration tied to future profits is seen in M&A transactions, helping to close the gap between buyer and seller valuation expectations.
- The ECB’s recent statement about the potential interest rate cut in June will likely increase activity in the market.

# Current valuation levels are attractive for PTOs

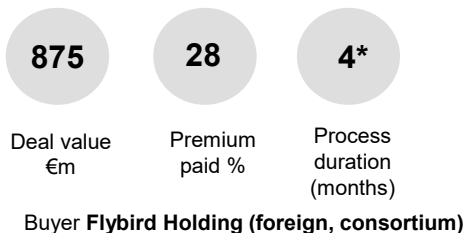
## Efecte



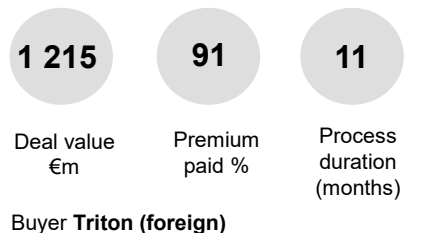
## Rovio



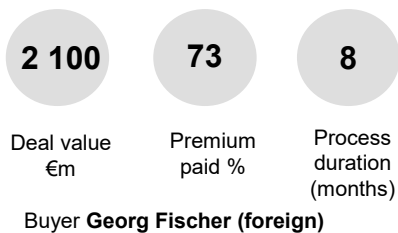
## Musti Group



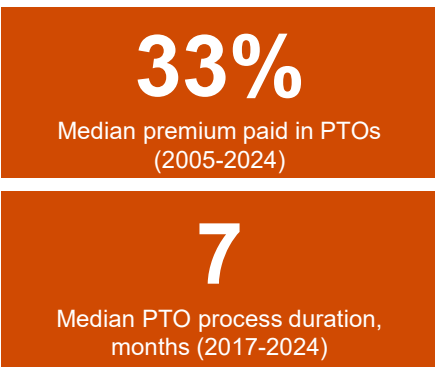
## Caverion



## Uponor



\* process ongoing at the end of Q1



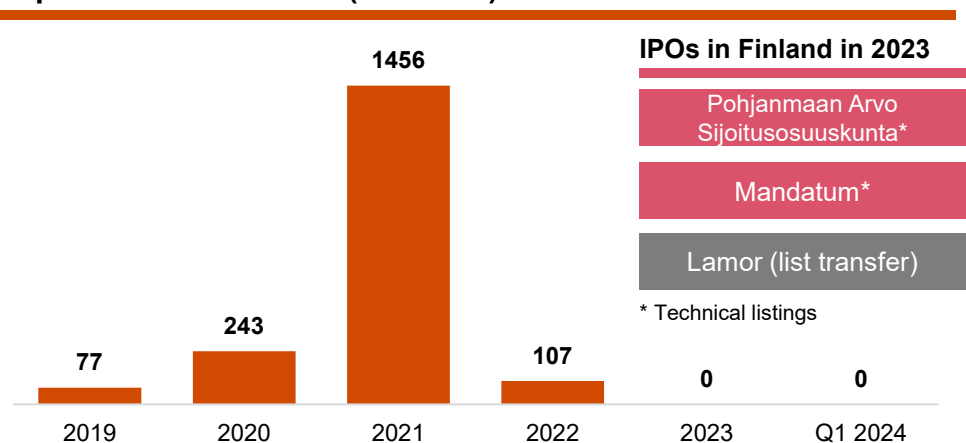
Current valuation levels require premiums paid in PTOs to be higher than average

### Key takeaways

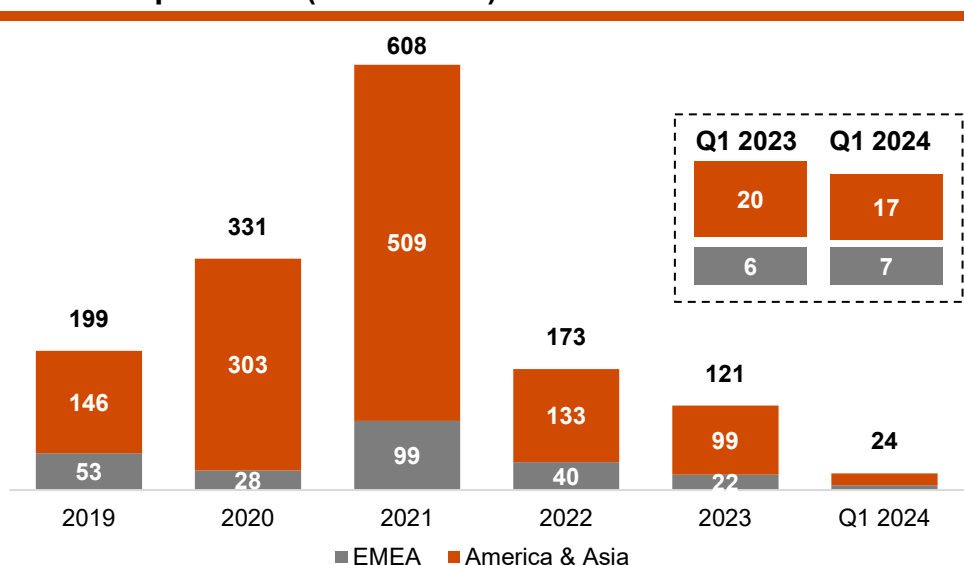
- One new public tender offer (PTO) was announced during Q1, when a German company Matrix42 announced that it would acquire Efecte. The acquisition is expected to be completed during the spring. In addition, a British-led consortium announced at the end of April that it would acquire Finnish company Purmo.
- There have been ten PTOs since the beginning of 2022 with a median premium of 70 percent. The long-term median premium is 33 percent, so recent year's premiums have been significantly above this level.
- Higher premiums are a result of lower valuation levels. However, there are relatively few PTOs in Finland, so premiums cannot be directly inferred only from valuation levels. Investors are willing to pay more for good companies and competitive situations naturally raise the offered price, altogether affecting median premiums.
- Normally, PTO processes have lasted only three to four months. In competitive or unclear situations, the durations typically double at least, leading the median process duration of 2017-2024 to be 7 months.
- Cross-border buyers represent over 97 percent of all takeovers during 2017-2024 when it comes to deal values and we expect this trend to continue. However, there are many small public companies with a market cap less than 100 million euros, which also Finnish buyers are able to buy.

# IPOs at all time low in Finland but Europe started to recover

IPO proceeds in Finland (million €)



Global IPO proceeds (billion USD)



“ Numerous companies are positioning themselves for listing in Finland

## Key takeaways

- As the economic uncertainties continued, there were no IPO proceeds during Q1 2024 in Finland. The significant slowdown started in 2023, when we only witnessed two technical listings and one list transfer during the entire year. Notably, none of these listing included capital raising.
- However, there is still IPO activity in the Nordics even though the economic outlook remains uncertain from a global perspective. For example, three IPOs during Q1 2024 and ten IPOs during the year 2023 were executed in Sweden.
- The first quarter was strong for European IPO market. In Europe, Q1 saw the highest IPO proceeds raised since Q1 2021 and two of the largest IPOs were private equity driven as they have a backlog of mature investments.
- Globally, IPO volumes and values are down compared to previous years' first quarters mainly driven by a significant decline in Asian IPO proceeds.
- The global outlook for the rest of the year is promising. In Finland there are several candidates currently in the pipeline waiting for the IPO markets to open.

More information about the IPO market in our Nordic IPO Watch 2023 and IPO Watch Europe Q1 2024 releases

# Strategic reviews may be lucrative for companies

## Number of strategic reviews announced

Public companies that have announced material strategic reviews.



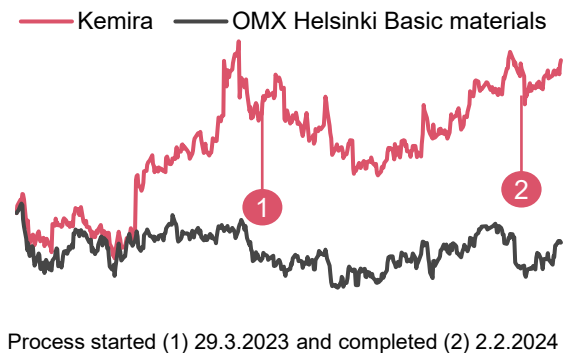
## Stock information of selected strategic reviews

Includes selected companies that have recently announced or ongoing strategic reviews. The timespans presented in the charts are from the beginning of June 2022 until the end of the first quarter in 2024. Size of business equals to sales of the divested businesses.

Completed Ongoing as of 31 March 2024

**Kemira**

- Divestment of Oil & Gas was completed 2.2.2024.
- Size of business 0.5 bn €.



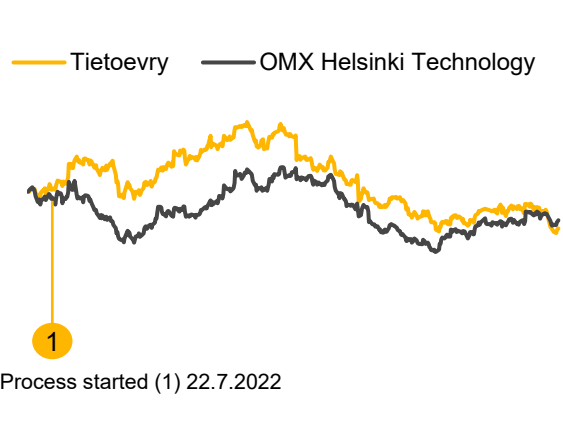
**Cargotec**

- Kalmar business is planning to be listed as a new public company.
- Size of business 2.0 bn €.



**Tietoevry**

- Banking segment's strategic review was concluded with no changes on 25.4.2024. Review regarding Tech Services is still in progress.
- Size of businesses 1.6 bn €.



**Wärtsilä**

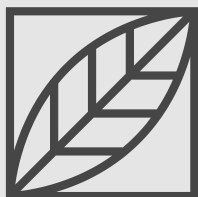
- Energy Storage and Optimisation business and Gas Solutions business are planned to be divested.
- Size of business 1.3 bn €.



# Outlook for 2024

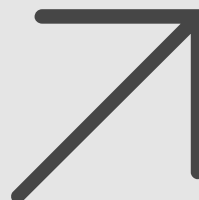
## Deals activity

- We expect that the current cycle starts to shift later this year and deal volumes increase with help of technology and consumer products. PE companies are also monitoring the market carefully.
- Green transition related projects have already attracted attention, and we expect this trend will continue throughout the year.
- Q1 was driven by small deals, but there are bigger deals in preparation waiting for the cycle to shift.
- The ECB indicated that interest rates may be cut in June, and this is expected to have a stimulating effect on economic activity and the deal market.



## The IPO market

- There are several IPO candidates currently in the pipeline waiting for the IPO market to open.
- 2025 will potentially be the year of IPOs again with a gradual ramp-up of IPO activity potentially to slowly start in the second half of 2024.
- EMEA IPO markets have already shown positive signs of recovery during Q1, which is likely to be perceived in Finland with a delay.
- However, the IPO market remains affected by uncertainty, underpinned by valuation levels and interest rates.



## Strategic reviews & PTO activity

- With valuation levels remaining low, it is likely that we will continue to witness public tender offers with higher than median premiums during 2024.
- However, we do not expect to see a large number of PTOs.
- It is more likely that bidders will come from outside Finland as most domestic companies do not have sufficient capabilities to execute large PTOs.
- Both strategic reviews and PTOs have been highlighted during uncertain market conditions, but when facing a turnaround companies' attention will potentially be directed elsewhere.





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A wide-angle photograph of a sunset over a large body of water. The sky is a mix of soft pinks, oranges, and yellows, with a few wispy clouds. The sun is low on the horizon, creating a bright glow. The water is calm and reflects the colors of the sky. In the distance, a range of dark mountains is visible against the horizon.

# Thank you

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