



# Finnish M&A market update Q3 2024

October 2024



# The Finnish M&A market is gradually shifting towards a more positive outlook

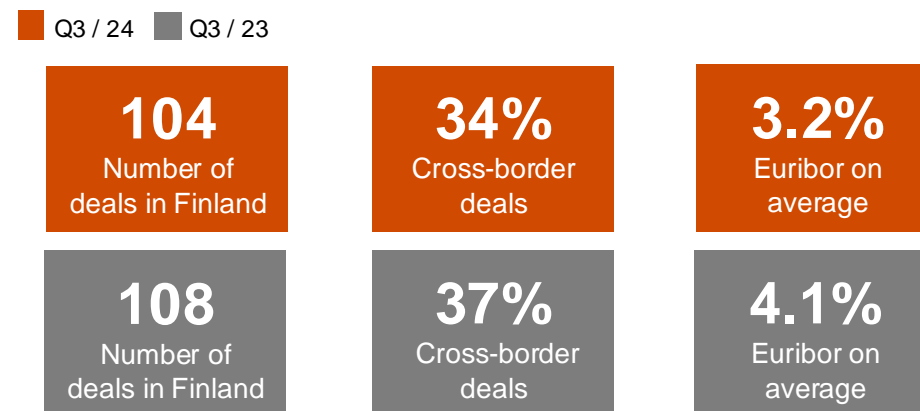
## Finnish M&A market overview

As we approach the end of year 2024, it is time to summarise the performance of the Finnish M&A market and anticipate the outlook for the future. Our analysis encompasses statistics on both domestic and global M&A activity and insights from the leading M&A professionals at PwC Finland.

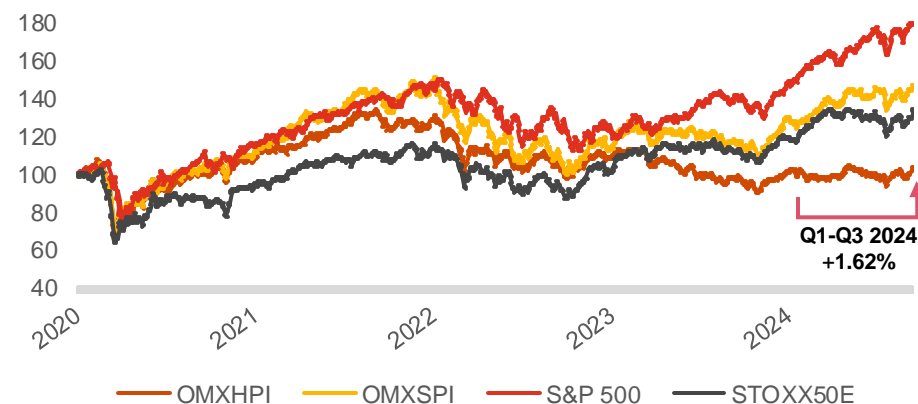
### Key observations from our report:

- M&A activity in Finland remained modest during Q3, following the global trends of declining transaction volumes
- Several strategic reviews were completed, with new processes expected to emerge, indicating future M&A activity
- Pressure for private equity exits is building up, and corporates are shifting their focus from divestitures and spin-offs to mergers and acquisitions
- We are emerging from a downturn, as inflation and interest rates continue to decrease
- As GDP rises and unemployment declines, business confidence is expected to improve, stimulating greater activity in the Finnish M&A market
- In Q3, we witnessed the first IPOs of 2024 in Finland
- Improving market conditions and lower market volatility are expected to reopen the IPO window in Finland

## Local key figure comparison



## Stock indices during 2020 – Q3 2024



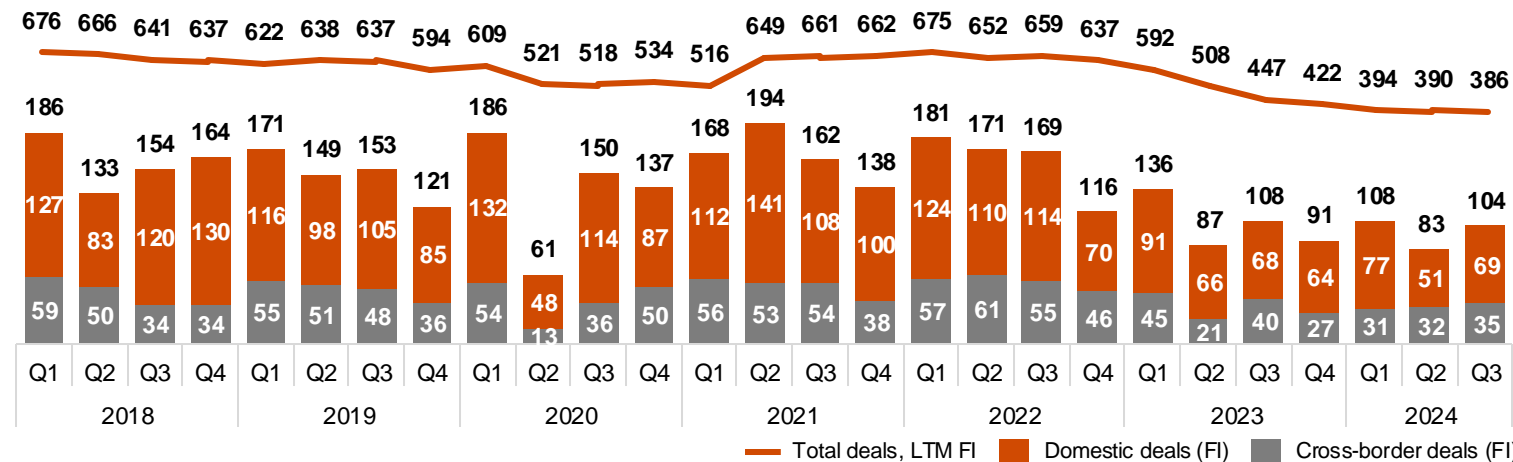
# M&A activity in Finland remained modest in the third quarter, following the global trend of transaction volumes

“ Rolling 12-month deal count continued to decrease

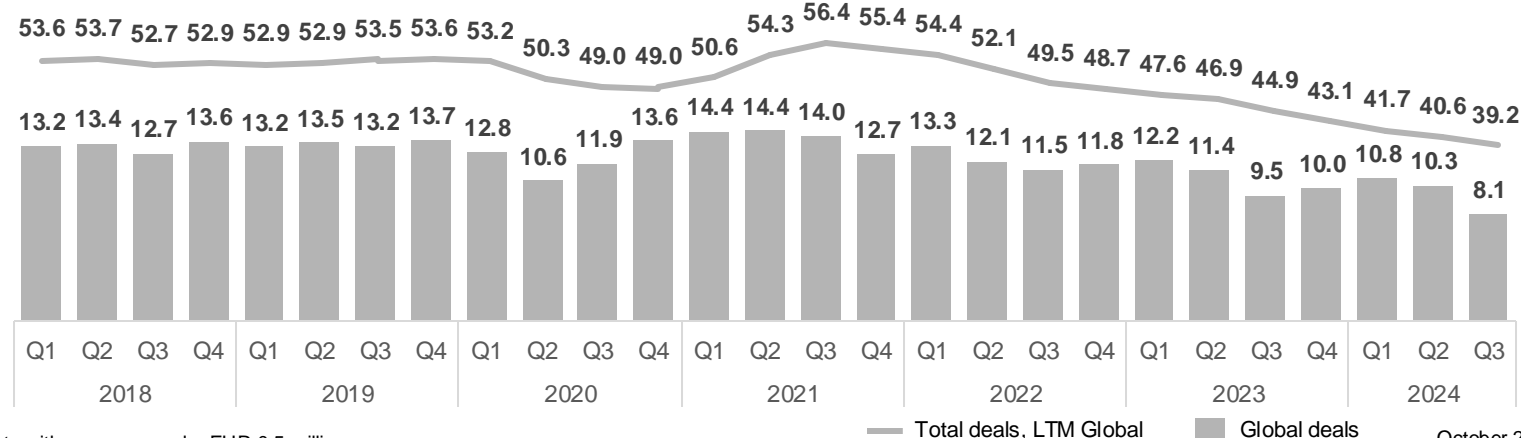
## Key takeaways

- The number of deals decreased slightly compared to Q3 2023
- The rolling 12-month deal count has now decreased for eight consecutive quarters
- Transaction volumes in Finland continued following the trend of global M&A transaction volumes
- Decreasing interest rates and a more stable financing environment will make it easier for dealmakers to price and execute their deals
- The lower level of M&A activity over the past years have created pent-up demand, particularly in the private equity universe
- As the economic cycle improves, corporates are shifting their focus from divestitures and spin-offs to mergers and acquisitions, prioritising growth and diversification

Finland quarterly transaction volumes



Global quarterly transaction volumes, in thousands



Note: The data does not include targets with revenues under EUR 0.5 million  
Sources: Talouselämä, Mergermarket, PwC analysis

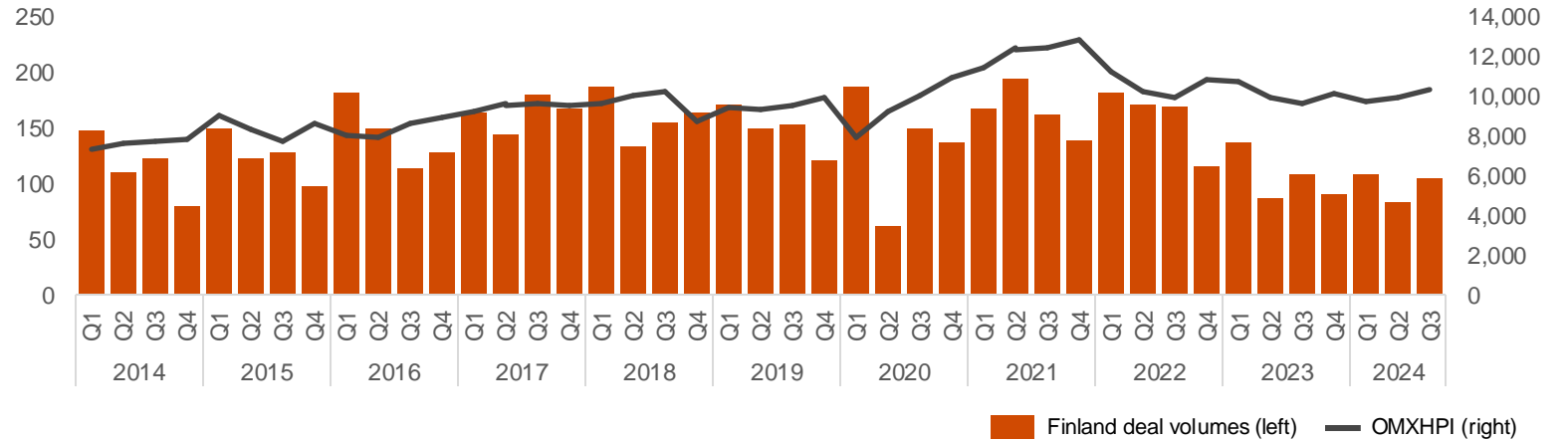
# Underperforming stock market and high interest rates have contributed to low M&A volumes in Finland over the past two years

“ The Finnish M&A market is expected to rebound

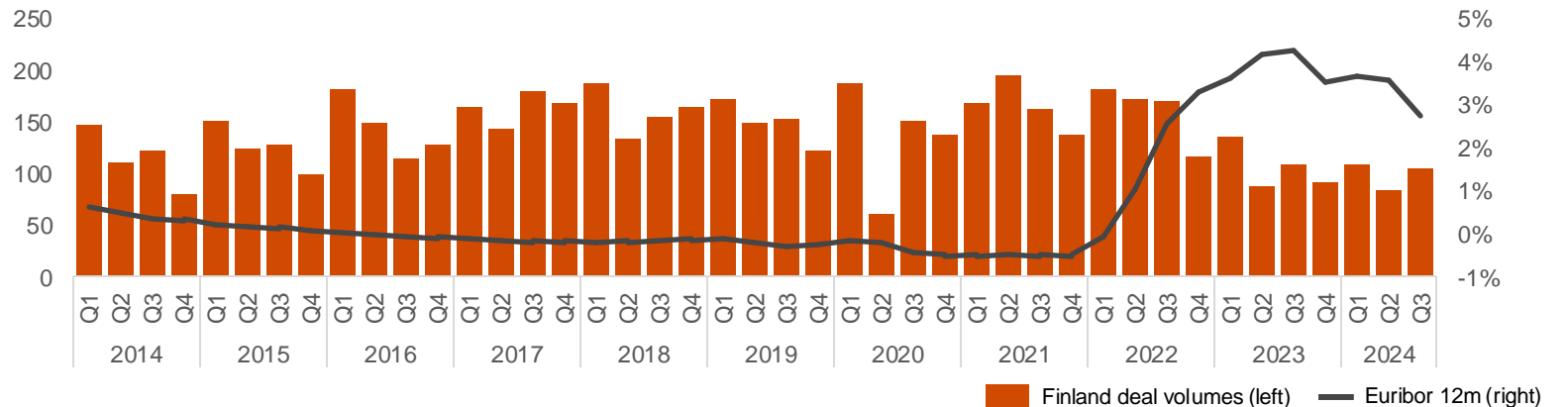
## Key takeaways

- Historically, there has been a correlation between deal volumes and OMX the Helsinki Price Index, as well as an inverse correlation between deal volumes and interest rates
- An underperforming stock market and high interest rates have contributed to low transaction volumes in Finland over the past two years
- Nevertheless, economic outlooks are positive regarding the rise in stock prices, and the interest rates have already started to decline
- As market conditions improve, we forecast a slight increase in Finland’s M&A transaction volumes for the remainder of the year, followed by further growth from 2025 onward

Finland quarterly transaction volumes vs. OMX Helsinki Price Index



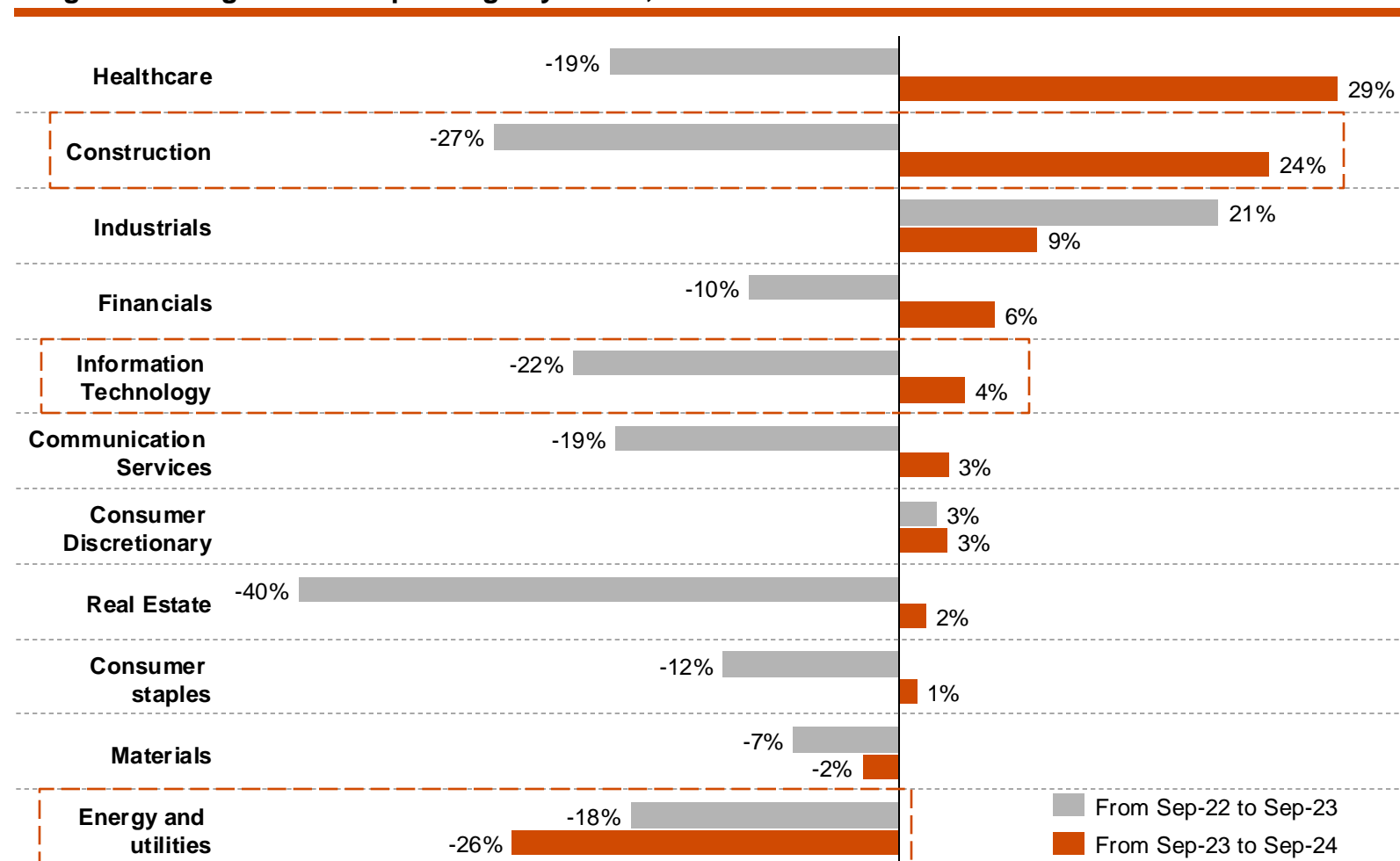
Finland quarterly transaction volumes vs. Euribor 12-month



Note: The data does not include targets with revenues under EUR 0.5 million  
Sources: Talouselämä, Bank of Finland, Capital IQ, PwC analysis

# Despite overall sluggish market cap development in Finland, few sectors are recovering, which will likely support M&A activity

Weighted average market cap change by sector, 09/2022 – 09/2023 vs. 09/2023 – 09/2024



“ Economic recovery and low valuations fuel Finnish M&A

- ### Key takeaways
- Market capitalization in Finland experienced modest growth between September 2023 and September 2024, although most sectors displayed a notable increase compared to the previous year
  - We are expecting to see an increase in M&A activity in the near term in e.g.:
    - **Construction:** We foresee an uptick in M&A activity in construction as the industry starts to recover from the downturn
    - **Information Technology:** Market valuations recovering and forward-looking multiples decreasing in anticipation of recovery
    - **Energy and Utilities:** Undervaluation in the energy and utilities sector may trigger industry consolidation

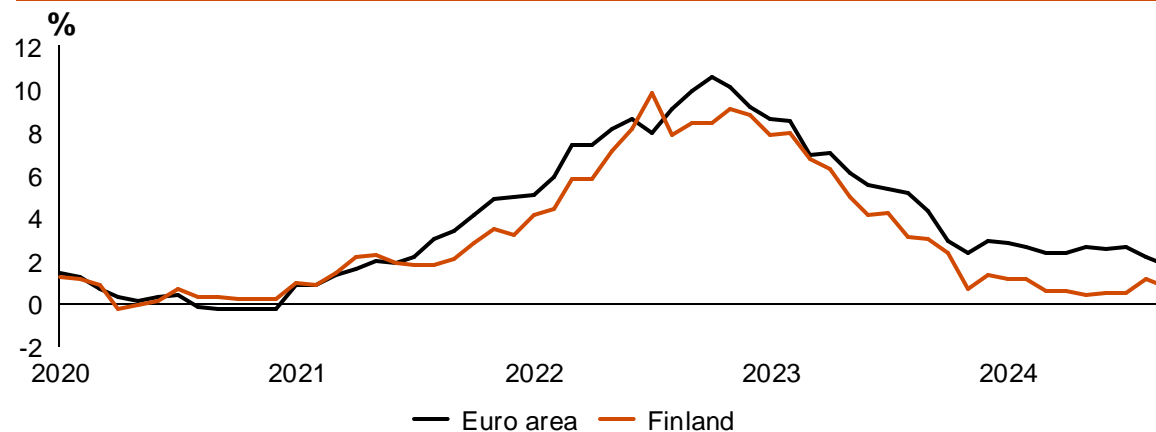
# Lower inflation and declining interest rates are expected to positively impact M&A activity in Finland

“ Lower inflation has been the main driver for ECB’s recent interest rate cuts

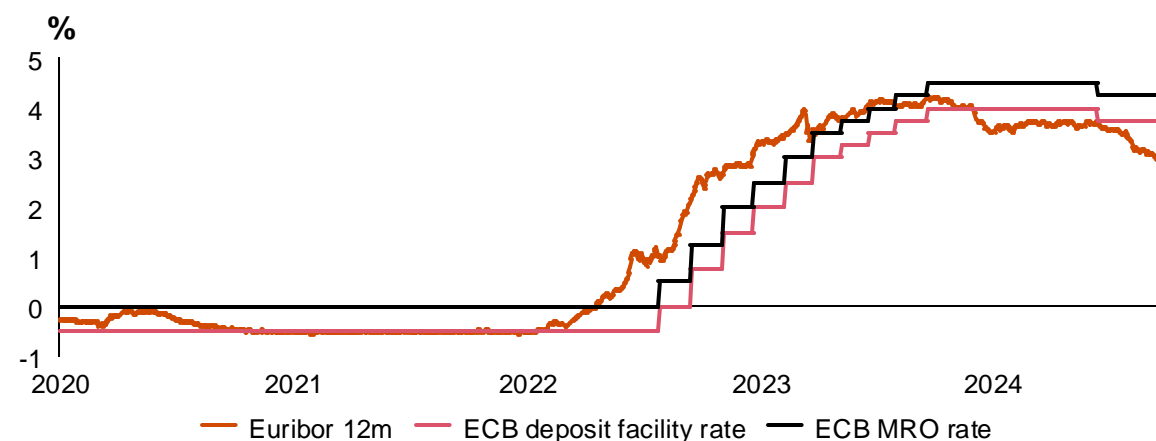
## Key takeaways

- Inflation in Finland has significantly slowed to below 1.5%, compared to over 8% in early 2023
- The forecast for overall inflation in Finland is 1.1% in 2024, 1.8% in 2025, and 1.6% in 2026
- ECB reduced interest rates in June and September driven by the lower inflation rates in the euro area
- Deposit facility rate stands currently at 3.50%, and the Main refinancing operations (MRO) rate at 3.65%
- Both implemented and anticipated future rate cuts have turned the key reference rate, 12-month Euribor, into a clear decline
- Lower inflation and declining interest rates reduce borrowing costs and stabilise the economy, encouraging acquisitions and long-term investment
- More favourable market conditions are expected to positively impact M&A activity in Finland

Inflation rates in Euro area and Finland, %

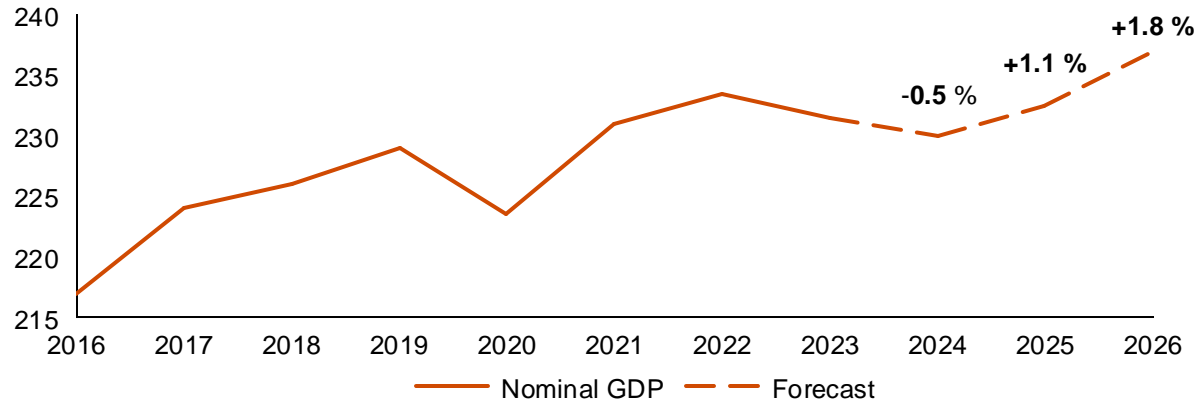


Euribor 12-month and ECB policy rates, %

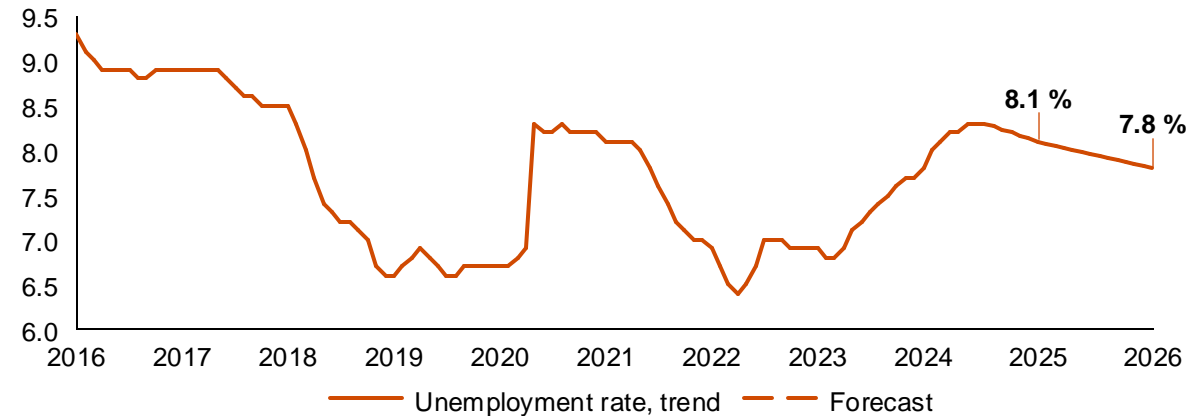


# Improving economic outlook and growth will further boost the Finnish M&A market activity in the upcoming years

Nominal gross domestic product (GDP) in Finland, €bn



Trend of unemployment rate in Finland, %



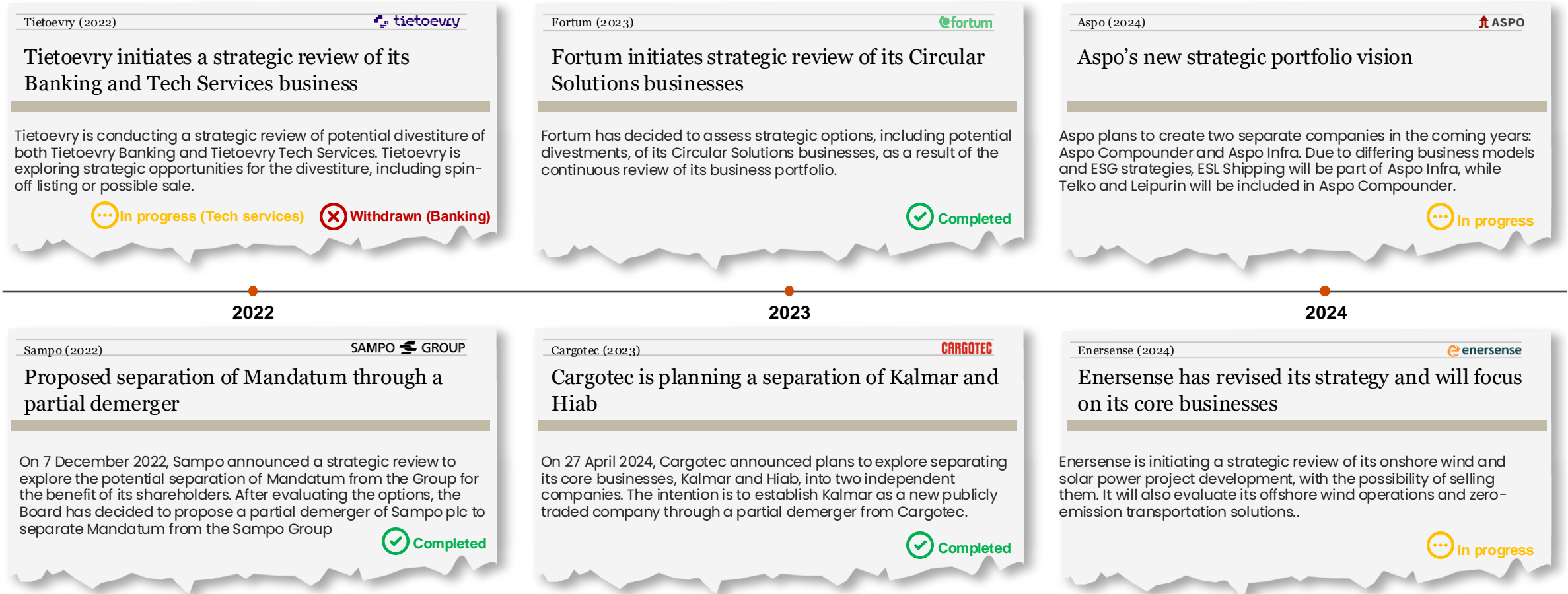
“ Economic outlook is improving, and economic uncertainty is dissipating

## Key takeaways

- Finland's economic outlook is improving, and economic uncertainty is gradually dissipating
- According to Bank of Finland's interim forecast from September 2024, Finland's nominal GDP is expected to contract by 0.5% in 2024
- The economy is expected to start recovering, with nominal GDP growth forecast at 1.1% in 2025 and 1.8% in 2026
- The unemployment rate is projected to decrease from the current 8.3% to 8.1% by 2025
- As the economy continues to recover, the unemployment rate is expected to decline further, reaching 7.8% by 2026
- Low business confidence has significantly contributed to the modest M&A activity in Finland
- As GDP rises and unemployment declines, business confidence is anticipated to improve, stimulating greater activity in the Finnish M&A market

# Number of strategic reviews have been conducted and concluded, and new processes will likely surface, indicating future M&A activity

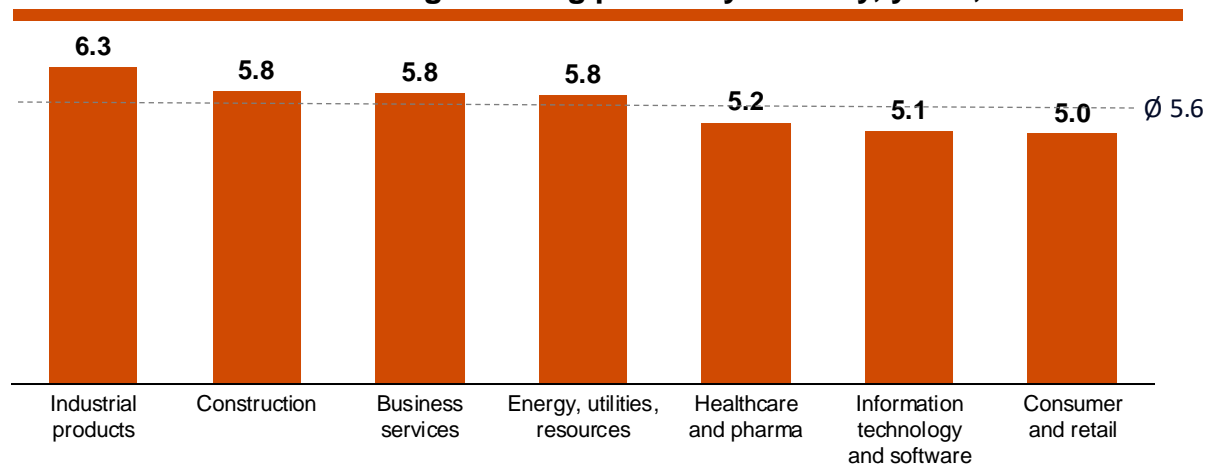
## Selected strategic portfolio reviews



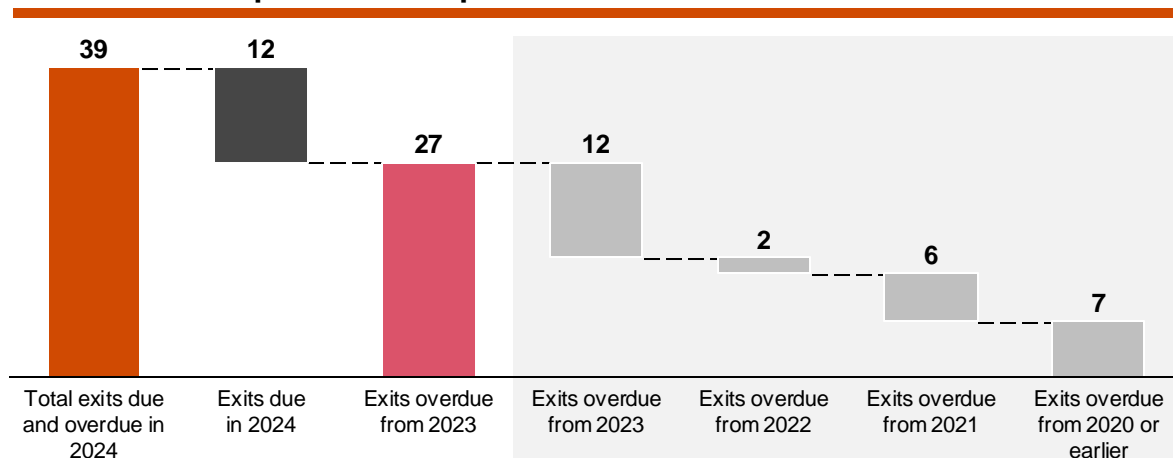


# Pressure to exit is building up for private equity investors as the number of overdue exits grows and fund investors expect returns

Historical Finland PE average holding period by industry, years, 2005-2024



Overview of PE portfolio companies due or overdue to exit in 2024 in Finland



Note: 1) Latest reported revenue; 2) As reported during year of acquisition  
Sources: Orbis, Mergermarket, PE and company websites, PwC analysis

“ Pressure is building up for private equity exits, potentially feeding into IPO activity as the window opens

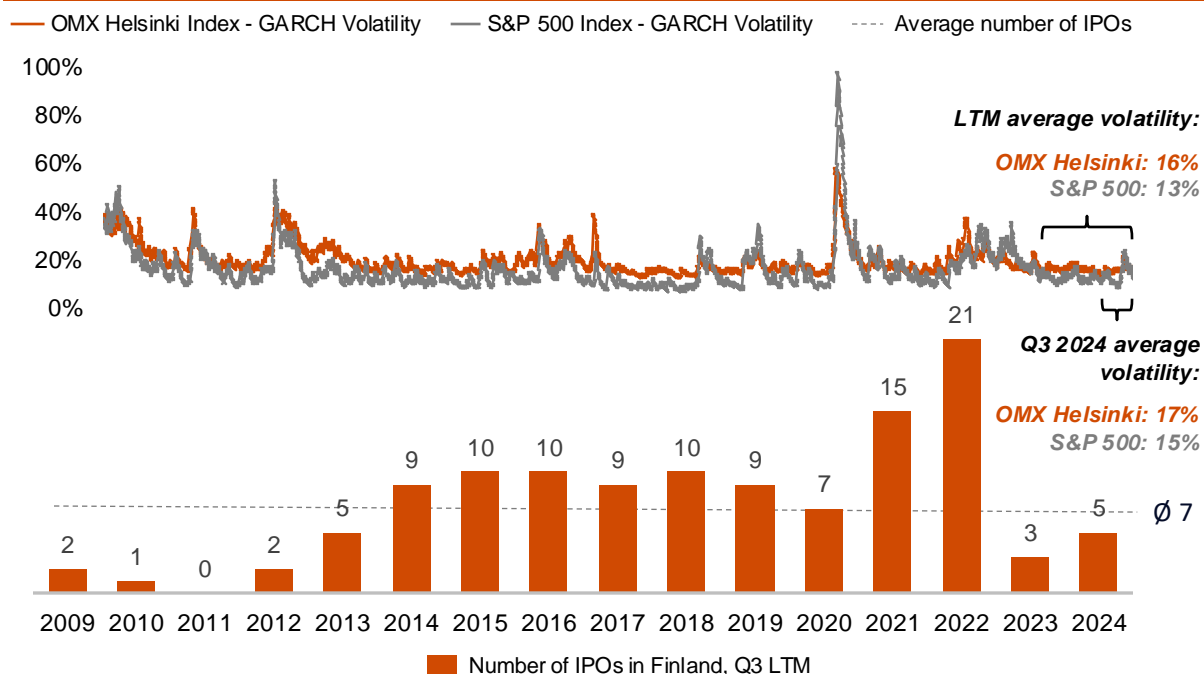
### Key takeaways

- There are approximately 150 Finnish private equity portfolio companies with over €10 million<sup>1</sup> in latest revenues
- In Finland, the historical average private equity holding period has been 5.6 years, with variance across industries
- Industry specific holding periods have been calculated from exited Finnish headquartered private equity portfolio companies with revenues greater than €10 million<sup>2</sup> between 2005-2024
- Pressure to exit is building up for private equity investors with over 30 current Finnish portfolio companies technically overdue when compared against the historical average holding period by industry in Finland
- Fund investors' expectations for returns are adding the exit pressure. The gap between private equity fund returns and new commitments necessitates new exits
- IPO may be an interesting option for many of the portfolio companies and an attractive exit route for the private equity owners

# Improving market conditions and lower volatility are expected to reopen the IPO window in Finland

“ Q3 2024 marked the kickoff of IPO activity in Finland, signaling cautious optimism for the market

## Number of IPOs in Finland and market volatility



## Key takeaways

- In Q3, we witnessed the first IPOs of 2024 in Finland
- Cargotec’s partial demerger was finalized at the end of Q2 2024, and Kalmar was successfully listed on the Nasdaq main list, as anticipated in our previous update
- Additionally, Solar Foods and Canatu made their debut on the First North Market in September
- Despite new listings, Finland’s IPO activity lags behind Europe and the United States, primarily due to higher market volatility
- The OMX Helsinki Index has shown an average GARCH volatility of 16% over the last 12 months, compared to 13% for the S&P 500
- In Q3 2024, the average GARCH volatility was 17% for OMX Helsinki Index and 15% for the S&P 500
- The higher volatility has delayed the anticipated reopening of Finland’s IPO market
- Stabilizing inflation, lower interest rates, and an improving economic outlook are expected to reduce market volatility in Finland, attracting new listings and enhancing overall investor confidence



More information about the IPO market in our Nordic IPO Watch H1 2024 and in our IPO Watch EMEA H1 2024

Note: Data includes special transactions such as dual and reverse listings. Data excludes transfers between Finnish lists and should be treated as non-exhaustive.  
 Sources: Nasdaq Helsinki, V-Lab, PwC analysis

# To conclude, the Finnish M&A market appears to be gaining positive momentum after facing a challenging environment

## Key drivers supporting the positive Finnish M&A market outlook

Inflation and interest rates	<ul style="list-style-type: none"><li>• Inflation in the euro area has slowed down significantly driving ECB's recent interest rate cuts</li><li>• Lower inflation and declining interest rates are creating favourable conditions for the Finnish M&amp;A market</li></ul>
GDP and unemployment	<ul style="list-style-type: none"><li>• Finland's GDP is expected to start increasing and unemployment declining from 2025 onward</li><li>• The improving economic outlook is expected to boost business confidence and positively impact the Finnish M&amp;A market</li></ul>
Business confidence	<ul style="list-style-type: none"><li>• Low business confidence has significantly contributed to the modest M&amp;A activity in Finland</li><li>• As GDP rises and unemployment declines, business confidence is anticipated to improve, stimulating greater activity in the Finnish M&amp;A market</li></ul>
Market volatility	<ul style="list-style-type: none"><li>• The improving economic outlook is anticipated to reduce market volatility in Finland</li><li>• Lower market volatility is likely to create a more favorable environment for IPOs, attract new listings and enhance overall investor confidence</li></ul>

“ Favourable economic indicators will boost the Finnish M&A market



**Given the recent positive market signals and improving economic forecasts, the Finnish M&A market is gaining positive momentum after facing a challenging environment**



Critical downturn



Challenging environment



Stable



Positive momentum



Optimistic outlook

# Supporting you in your transactions



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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 blues, with a few wispy clouds. The sun is low on the horizon, creating a bright orange glow that reflects on the water's surface. In the distance, a dark silhouette of mountains or hills is visible against the horizon line.

# Thank you

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