



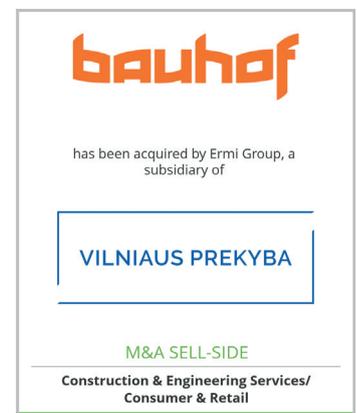
## CONSUMER & RETAIL

Deal flash, October 2018

# CREATION OF THE THIRD LARGEST DIY GROUP IN THE BALTICS

## Deal snapshot

- MyInvest Estonia, a consortium of local private investors, has sold Estonian DIY chain Bauhof Group AS to Ermi Group, a subsidiary of the Baltics' largest retail group, Vilniaus Prekyba. This transaction has resulted in the creation of the region's third largest DIY group, with strong market positions in Estonia and Lithuania.
- Bauhof leads the Estonian building materials retail DIY market. In 2017, the company reported sales of US\$106 million and a net profit of US\$4 million. Bauhof has 13 stores and 450 employees.
- Ermi Group, a subsidiary of Vilniaus Prekyba, operates the group's DIY chains in Lithuania under the Ermitažas brand. Vilniaus Prekyba is a private holding headquartered in Lithuania that oversees, controls and manages a group of subsidiary companies operating retail and pharmacy chains, real estate development and shopping center lease and management in the Baltic states, Poland, Bulgaria and Ukraine.



## Transaction rationale

The former owners of Bauhof, a diversified group of local and Scandinavian financial investors, were looking to realize the value created over the years. While the overall economic environment remains healthy and the strong real estate market creates natural demand for the DIY sector, the industry is consolidating rapidly, which has intensified competition. At the same time, the situation in the labor market means rising employment costs for the retailers, exerting downward pressure on the margins. These considerations, along with active interest from potential acquirors, prompted the owners to initiate a sale process.

## Our role in the transaction

Oaklins' team in Estonia acted as the exclusive sell-side advisor to MyInvest Estonia in this transaction.



## Market trends and deal drivers

- The Baltic DIY market is characterized by strong growth, but also by intense competition and increasing consolidation.
- The leading players are progressively operating on a pan-Baltic basis and attaining economies of scale. With sourcing moving from local importers to direct imports from China, smaller players are becoming less competitive.
- The establishment of e-commerce requires investment in new IT platforms which the larger players can spread across a bigger business volume.
- Bauhof is well-positioned in the Estonian market, with the highest brand recognition among consumers. This acquisition significantly strengthens Ermitažas' position as a pan-Baltic consolidator.

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## M&A valuation aspects

- The critical valuation drivers in this transaction were the current strong growth rates versus the potential future downward pressure on margins.
- Furthermore, since the target has a higher than market average share of seasonal gardening products (including plants) in their sales mix, the prevailing conditions can have up to a +/-15% effect on the EBITDA.

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## Oaklins industry specialist



✉ **Heikki Källu**, Partner, Oaklins, Estonia

Heikki has extensive experience in M&A and strategic advisory. He has advised many clients across several industries. "We are very pleased to have advised on this notable transaction in the Estonian retail sector. Bauhof has a highly professional management team with whom we established a close working relationship which certainly contributed to the success of the deal. The acquisition will bring immediate sourcing synergies to Vilniaus Prekyba in their domestic market in addition to strengthening the group's presence in Estonia."

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