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Deal values drop as Nordic assets look to public markets

Amid mixed growth forecasts for the Nordic economies, private equity firms are battling with stock exchanges for the affection of businesses in search of capital. **Mikkel Stern-Peltz** reports

More of the same was broadly the theme in the Nordic macroeconomic performances of 2016. As has been the case in recent years, Sweden continued to be the economic heavyweight in the Nordic region, with the highest level of GDP growth. The European Commission (EC) is projecting 3.4% year-on-year GDP growth for the Swedes, down slightly on the 4.1% growth

rate of 2015. According to Nordea, the Swedish slowdown is mainly due to lower exports. Though domestic demand has seen strong improvement in recent years, private consumption is expected to curtail in 2017.

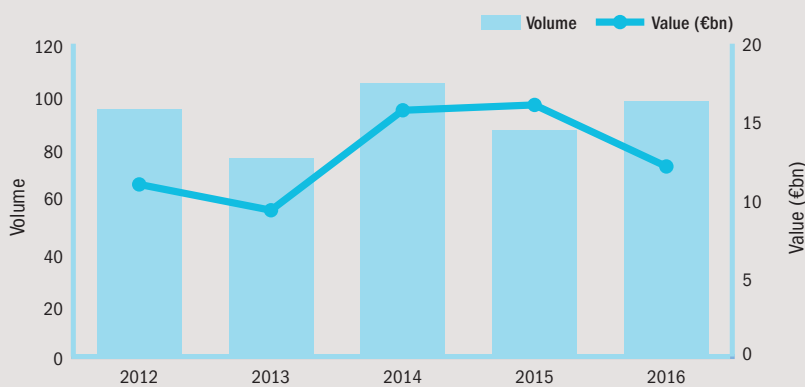
Growth has been more modest in Denmark, where the Danish national statistics agency is predicting a 1.1% increase in 2016, seeing a return to 2013 rates after two years of slightly higher economic expansion with 1.7% growth in 2014 and 1.6% in 2015. Improving employment has supported investment activity and consumer spending, Nordea says in an analysis, but warns of risks to growth from potential declines in global trade.

The Norwegian economy has been slowing down since 2014 and the fall in oil prices. From 1.9% growth in 2014, through 1.6% in 2015, the Norwegian central statistics agency is forecasting 1% GDP growth for Norway in 2016. Nordea's analysis suggests the fall in oil industry investments is curtailing, while the broader economy has held up well against the shock to the key Norwegian economic sector. The bank said unemployment seems to have peaked and house price growth continues.

As the Nordic country hit the hardest by the financial crisis, Finland continues to experience patchy growth. The EC is projecting 0.8% growth in 2016, up from 0.2% in 2015 and an -0.7% economic contraction in 2014. Nordea says in its analysis that fragile growth is expected to continue in Finland, with a less-than-rosy outlook for exports due to weakening global trade.

Central bank interest rates remain at near-zero levels across the Nordic countries, with Sweden's Riksbank and the Danish Nationalbanken maintaining negative rates. The

Nordic overall dealflow



Source: unquote data

Private-equity-backed buyouts

	2012	2013	2014	2015	2016
Volume	95	76	105	87	98
Value (€bn)	11.00	9.35	15.74	16.09	12.15
Average value (€m)	116	123	150	185	124
% of European volume	16.1%	13.4%	16.0%	13.5%	13.4%
% of European value	14.4%	11.0%	15.9%	12.8%	10.4%

low-interest environment has been driving the search for yield in the Nordic buyout market in recent years, and continues to be a key factor, says Danske Bank’s head of loan capital markets in Sweden, Lars Fromm.

Politics

The Syrian refugee crisis continues to be a central political theme across the Nordic countries, particularly in Denmark and Sweden. Populist politicians and parties in both countries have gained ground in recent years and continue to score points with anti-immigration rhetoric. However, in Denmark, the populist anti-immigration Danish People’s Party dropped in the polls towards the end of 2016.

Sweden’s refugee debate continued after a 2015 in which the country admitted the highest rate of refugees per capita across the EU. Private equity became tangentially affected by the debate, as certain portfolio companies provided housing services to arrivals and questions were raised by Riksdag politicians and the media about private companies profiting from the crisis.

Buyout environment

For the first time in half a decade of constant growth, the Nordic private equity market registered a drop in average buyout value. The decrease was the most evident change in the market in 2016 and saw average transaction value plummet by 33%.



“All the potential mega-cap deals went for an IPO instead [of PE]. As long as the valuations are what they currently are on the stock exchanges, that trend is likely to continue”

Lars Fromm, Danske Bank

Despite registering 11 more deals than the year before, 2016 saw total deal value tumble by nearly a quarter – from €16bn to €12.1bn.

Thomas Klitbo, partner at private equity firm IK Investment Partners, says he recognises the picture painted by the *unquote*” data, both from his own firm’s investments and in the Nordic market as a whole. “There was a good level of activity last year, particularly in the smaller mid-

market brackets. Generally, there were fewer large transactions in the market and fewer large structured processes as well.”

Klitbo says part of the explanation for the drop in average value and lack of large deals was a very strong IPO market for Nordic sellers, particularly in Sweden. “The result was that it became difficult for private equity firms to compete for attractive assets that have an IPO play.”


A buoyant IPO market proved a key competitor to private equity throughout 2016, says Danske’s Lars Fromm, noting that many larger deals and refinancings were dealt with through the public markets. “We expected it to be more balanced between M&A and equity capital markets during H2 but that never really was the case,” he says.

Simon Wakefield, head of acquisition finance at SEB, says Nordic private equity houses are also holding their top assets for longer, due to the continually growing competition in the Nordic market. “Since it is increasingly difficult to find quality assets to buy at reasonable prices, it makes sense to run the really good ones until the fund raising cycle absolutely forces them to sell,” Wakefield says. “This might hold back some larger investments from being sold.”

He says because competition is greatest in the larger deals, GPs are working with smaller targets where there is still more value to be found: “You can see this made visible by the number of houses that are raising mid-cap or small-cap funds with separate teams.”

Wakefield’s comments are supported by the data. While the core €50-250m EV mid-cap segment remained the most active slice of the market, there was also a marked increase in the €5-25m space. While private equity appetite in the region remains strong, investors are increasingly weary of overpaying and appear to be more cautious about how they deploy their capital.

This tendency follows a “flight to quality” in the Nordic buyout market, which has been ongoing since 2015. In last year’s Annual Buyout Review, managing partner of Danish mid-cap buyout house Polaris, Jan Johan Kühl, said the region’s investors were tending towards less risky assets with slightly lower return expectations. Similar views were expressed by Nordic private equity professionals throughout last year and Klitbo suggests it still holds true: “The Nordic market has seen a long-term trend of buyers being more



aware of asset quality. Funds are increasingly looking for the safer bets, so good sizable assets often end in broad structured processes, which drive pricing up.”

Pricing

Mega-cap deals all but disappeared from the Nordic private equity landscape in 2016, with EQT’s €1bn buyout of Danish content management software developer Sitecore the lone representative in the €1bn+ size bracket.

“All the potential mega-cap deals went for an IPO instead [of PE],” Fromm says. “As long as the valuations are what they currently are on the stock exchanges, that trend is likely to continue.”

While total deal value decreased from 2015 to 2016, any corresponding decline in entry multiples was not visible across the market. Increased competition between private equity firms with increasing amounts of capital to deploy, as well as other investors and corporates, has seen larger and larger entry multiples paid for Nordic assets in recent years.

The trend line may have tapered last year, but it did not break, and GPs are still seeing entry multiples creep higher: “Prices for quality assets are being pushed up, but returns on high-quality companies are also good,” says IK’s Klitbo.

Deal volume growth in the €500m-1bn bracket resonates with the trend of multiple growth, as funds are more willing to pay the higher entry multiples for slightly smaller tickets, given their greater potential for growth than some of the typical multi-billion EV targets.

“Entry multiples are definitely going up,” Fromm says. “Return expectations now rely more on aggressive growth stories, partly via acquisitions. If anything, return requirements are down – particularly in the mid- and large-cap segments, where the competition is most fierce.”

In addition to the European and global trend of increased competition from corporate acquirers, the family offices and investment vehicles have upped their interest in Nordic private market, eschewing traditional fund exposure for direct competition.

“We’ve seen strong appetite from PE for quality Nordic assets, with clear competition from the IPO market, but also family-office-types with substantial capital pools that are competing in a larger market segment now,” says Klitbo. “The



increase in competition has pushed pricing up and, as a natural consequence, GPs are looking for smaller assets, which can require more work – but also offer exciting opportunities.” IK launched and closed a €277m European small-cap fund last year.

Pricing growth in the region has been supported by the long-standing low interest rate environment established by the Nordic central banks and resulting cheap leverage. The central banks kept key rates near zero in 2016, making for a very attractive debt market for Nordic GPs. Availability of debt from banks and alternative sources has underpinned dealflow and the upward pressure on pricing in 2016, with leverage sneaking upwards as well – particularly on the most attractive assets. “A range of 4-5x was normal over two years ago and now leverage of 5-6x is reasonably frequent,” says SEB’s Wakefield. However, he says the trend is not necessarily all negative: “Private equity has become noticeably more professional since the market correction in 2008/09 and the quality of the companies they are buying is generally impressive.”

Competition in the debt markets has also seen

a weakening of terms, with covenants increasingly in cov-loose and cov-lite territory. “Covenant trends are very negative, speaking as a lender,” Wakefield says, noting that large-cap transactions are mostly cov-lite, and the pressure on mid-cap to go cov-lite is noticeable at the larger end of the mid-cap bracket.

Danske Bank’s Fromm says cov-lite transactions crept down in size last year and hybrid models became more prevalent. “We saw hybrids such as cov-loose structures with ample headroom in the maintenance covenants, as well as debt incurrence provisions taking them closer to cov-lite”

From the equity provider’s side, Klitbo argues debt documentation is moving more towards bespoke models than loose covenants: “In some ways the trend has been to focus on getting the right covenants rather than a full palette of covenants,” he says.

Sourcing

As has been the case for the past five years, 2016 again saw two categories as the main sources of buyouts in the Nordic market.

Family/private vendors and institutional investors were the source of 89% of all Nordic private equity acquisitions in 2016. This represents a small increase compared to 2015, but in line with the five-year average of 84.6%.

Despite criticism of private equity's predilection towards pass-the-parcel deals, Nordic appetite for secondary buyouts continued apace in 2016 as the second-most popular sourcing route. SBOs made up 30 of 97 deals last year, surpassed only by the family/private vendor category, which contributed 57 deals.

There was a slight drop in corporate carve-outs last year, though it follows two years of extraordinarily high deal numbers in the source category which has had a somewhat cyclical nature in the past half-decade.

"There is a lack of supply and stiff competition from the stock exchange," says Fromm. "Large corporates have been unwilling to sell non-core assets, as they don't know what to buy given the high valuations we are seeing."

Coveted proprietary deals are fewer and further between in the Nordic region, as is the case in many developed European private equity markets. As the Nordic buyout market has continued to mature, the penetration of corporate finance into the smaller segments has amplified and has increased the tendency of structured processes across the market. In recent years, Nordic PE

to-PE route has matured to the point of being a substantial deal source in 2016.

Sectors

Last year saw little change in the overall proportions of sectoral preference in Nordic private equity. Volume did not vary significantly from 2015 in most sectors, with industrial and consumer assets being the exceptions.

No significant sectoral trends can be gleaned from the data, but software assets are gaining increasing attention in the market. "The sectoral trend we notice at SEB is the growing importance of software, and we have increased our activity in the sector noticeably over the last three years," says Wakefield.

In addition to EQT's Sitecore buyout, last year saw Nordic Capital acquire Swedish customer insight software developer Cint, while Danish GP Polaris established a dedicated software team and penned its first software deal with the LBO of Configit.

Exit environment

Last year was very much a seller's market in the Nordic countries, as evidenced by the upward pressure on entry multiples and buoyant public markets.

Though 2016 saw the region register the lowest number of exits in five years, exit value was substantially higher than previous years. *unquote* data registered 116 private equity and VC exits last year, down from 147 in 2015, but an increase in total exit value of around €8bn.

In June 2016, Altor founder and managing partner Harald Mix noted the exit market conditions, on a panel at the Danish Venture Capital Association's annual Nordic Private Equity Summit in Copenhagen. "Exit markets are almost perfect," Mix said. "The only thing to stop you from tapping the market is having bought at the wrong time in the last cycle. If we are seeing a lack of exit opportunities, it is probably a reflection of a lack of quality in some portfolios. It's very difficult to see better conditions for exits than what we have today."

The strong exit market persisted throughout 2016, with the Nordic bourses landing the two largest realisations of the year, though SBOs and trade sales provided the lion's share of exit volume. ■



"Exit markets are almost perfect. The only thing to stop you from tapping the market is having bought at the wrong time in the last cycle"

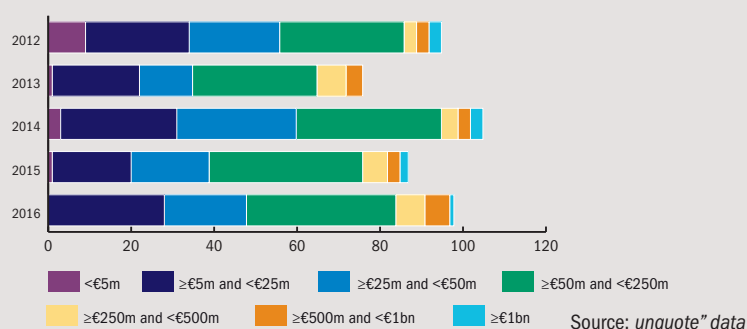
Harald Mix, Altor

professionals have repeatedly expressed the growing difficulty in sourcing truly proprietary deals in the region's core mid-market – and 2016 was no exception, by the accounts of local investors.

With high levels of activity and growth in tech-driven startups in Stockholm, Helsinki and Copenhagen, VC-backed technology companies are expected to become a source of buyouts for private equity firms. While EQT's buyout of Sitecore saw the asset acquired from previous investor Technology Crossover Ventures, there is scant additional evidence to suggest the VC-

NORDIC STATS

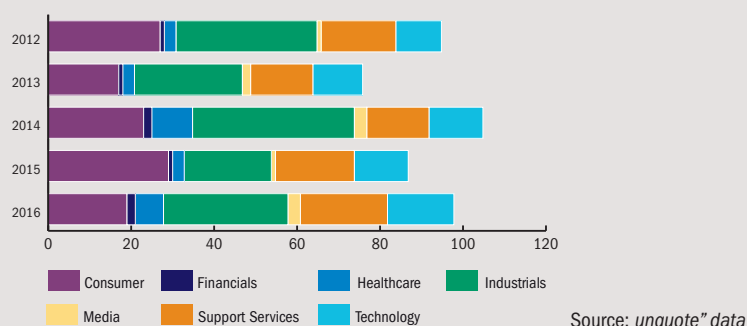
Nordic buyouts by size range (volume)



Nordic buyouts by €m size range (volume)

	2012	2013	2014	2015	2016
<5	9	1	3	1	0
≥5 and <25	25	21	28	19	28
≥25 and <50	22	13	29	19	20
≥50 and <250	30	30	35	37	36
≥250 and <500	3	7	4	6	7
≥500 and <1bn	3	4	3	3	6
≥1bn	3	0	3	2	1

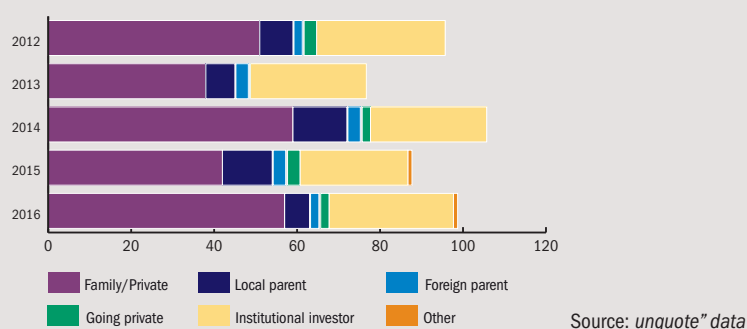
Nordic buyouts by super-sector (volume)



Nordic buyouts by super-sector (volume)

	2012	2013	2014	2015	2016
Consumer	27	17	23	29	19
Financials	1	1	2	1	2
Healthcare	3	3	10	3	7
Industrials	34	26	39	21	30
Media	1	2	3	1	3
Support Services	18	15	15	19	21
Technology	11	12	13	13	16

Nordic buyouts by vendor type (volume)



Nordic buyouts by vendor type (volume)

	2012	2013	2014	2015	2016
Family/Private	51	38	59	42	57
Local Parent	8	7	13	12	6
Foreign parent	2	3	3	3	2
Going Private	3	0	2	3	2
SBO	31	28	28	26	30
Other	0	0	0	1	1

Nordic exits 2016

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Ahlsell	Flotation	2,078.5	CVC Capital Partners
LM Glasfiber/LM Wind Power	Trade sale	1,500	Doughty Hanson & Co
Icopal	Trade sale	1,000	Investcorp
Atos Medical	SBO	830	EQT Partners
ÅR Packaging	SBO	450 (est)	Ahlström Capital, Accent Equity Partners
Hilding Anders	SBO	n/d	Arle Capital Partners
Visma BPO	SBO	430.7 (est)	Cinven, KKR, HgCapital, Alpinvest Partners
Plantasjen Group	SBO	312.2	Mizuho Corporate Bank, Apax Partners
SFK Systems	SBO	188.2 (est)	Maj Invest Equity
Nordic Waterproofing	Flotation	183.2	Axcel

€2.1bn
Largest Nordic
exit in 2016

€1bn
Largest Nordic
fund in 2016

Nordic funds 2016

Fund name	Fund manager	Fund target (€m)	Amount closed (€m)
FSN Capital V	FSN Capital	870	1,000
Norvestor VII	Norvestor Equity	510	510
Polaris Private Equity IV	Polaris Private Equity	402.9	443.2
Segulah V	Segulah Advisor	573.5	260.2
Intera Fund III	Intera Equity Partners	250	250
MB Equity Fund V	MB Funds	225	236.5
Valedo Fund III	Valedo Partners	215.6	216.8
Monterro 2	Monterro	129.3	129.3

98
Volume Nordic
buyouts in
2016

Nordic deals 2016

Deal name	Business description	Deal value (€m)	Sector	Equity
Sitecore	Developer of customer experience management software	1,000	TMT	EQT
Hilding Anders	Manufacturer of mattresses and beds	n/d (500-1,000)	Consumer	KKR
Atos Medical	Manufacturer of medical devices focused on the ear, nose and throat areas	830	Healthcare	PAI Partners
Danmarks Skibskredit	Provider of financing for international shipping	634.4	Financials	Axcel
ÅR Packaging	Manufacturer of folding carton packaging	n/d (500-1,000)	Industrials	CVC Capital Partners
Navico, Digital Marine Solutions	Supplier of marine electronics, focusing mainly on the leisure market	n/d (500-1,000)	Industrials	Altor Equity Partners, Goldman Sachs
Välinge	Manufacturer of mechanical locking systems for laminate and wood flooring	n/d (500-1,000)	Industrials	KKR
AutoStore	Developer of automated storage and retrieval systems	496 (est)	Industrials	EQT
Visma BPO	Provider of outsourced accounting services	431 (est)	Business Services	Lexington Partners, Alpinvest Partners, HgCapital
Plantasjen Group	Operator of garden centres in Norway, Sweden and Finland	312.2	Consumer	Ratos Holding
Poweflute	Manufacturer of high-grade packaging papers	310.1	Industrials	Madison Dearborn Partners
DeepOcean	Provider of services and technology for the sub-sea industry	n/d (250-500)	Industrials	Triton Partners
KK-Group	Maker of electronic control systems for wind turbines	n/d (250-500)	Industrials	SoliX
Fertin Pharma	Developer and maker of private-label medicated chewing gum	269 (est)	Healthcare	EQT
TeleComputing	Provider of cloud computing and centralised IT on-demand solutions	n/d (50-250)	Business Services	IK Investment Partners
Hemnet	Operator of an online property marketplace	204.8	TMT	General Atlantic
BoConcept	Manufacturer of furniture and lifestyle products	201.7	Consumer	3i
SFK Systems	Supplier of high-technology production systems and equipment for the meat industry	188 (est)	Industrials	ATP private Equity Partners, Axcel
Netel	Provider of infrastructure network roll-out services to operators, network owners, system suppliers, municipalities and property owners	n/d (50-250)	Business Services	IK Investment Partners
AddSecure	Provider of communications services for home security alarms	n/d (50-250)	Business Services	ABRY Partners
Esperi Care	Provider of assisted living services to senior citizens	n/d (50-250)	Healthcare	Intermediate Capital Group

Nordic deals 2016

Deal name	Business description	Deal value (€m)	Sector	Equity
Scan Global Logistics	Provider of freight services	148 (est)	Industrials	AEA Investors
Ellab	Producer of measuring, recording, monitoring and validating information in thermal processing	134 (est)	Industrials	IK Investment Partners
Bygghemma Group	Online provider of building products and home furnishing products	n/d (50-250)	Consumer	FSN Capital
Realia Group	Provider of real estate management and brokerage services	n/d (50-250)	Financials	Altor Equity Partners
Cint	Developer of software for market research	n/d (50-250)	TMT	Nordic Capital
Office Management	Supplier of office equipment, communication, and IT solutions	n/d (50-250)	Business Services	Inter IKEA Investments
Brand Factory Group	Provider of product branding, including vehicle branding, banners, retail branding, clothing and wrapping	n/d (50-250)	Media	Accent Equity Partners
Casa	Developer and builder of homes, commercial properties and public buildings	n/d (50-250)	Industrials	Catacap
Sortera Skandinavien	Provider of waste management services	n/d (50-250)	Business Services	Summa Equity
Zengun	Developer of high-end commercial properties	n/d (50-250)	Industrials	Segulah
Eneas Energy	Supplier of corporate energy services	80.5	Business Services	Norvestor Equity
Touhula	Operator of pre-schools and daycare centres	n/d (50-250)	Consumer	EQT, Norvestia
Airteam	Provider of ventilation services	77.1	Industrials	Ratos
Sandbäckens	Provider of heating and sanitation installations	n/d (50-250)	Industrials	Segulah
Vitamin Well	Producer of healthy drinks	n/d (50-250)	Consumer	Bridgepoint Capital
Dialect	Provider of mobile and computer software and hardware services	n/d (50-250)	TMT	Perusa Partners
EuroMaint	Provider of maintenance services to rail transport and engineering industries	67.6	Industrials	Orlando Management
DSI-Next	Provider of IT outsourcing services	n/d (50-250)	TMT	Adelis Equity Partners
Lessor Group	Provider of payroll and HR systems	n/d (50-250)	Business Services	Axcel
DK-Foods	Producer of sausage products	67 (est)	Consumer	Maj Invest
Tommy Nordbergh	Provider of temperature-controlled goods transportation	n/d (50-250)	Industrials	Accent Equity Partners