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Nordic Fundraising Report

2018 edition

Contents

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Mega-funds ignite Nordic nations

Gareth Morgan
Research manager

The Nordic region has seen a significant jump in private equity fundraising in 2018, with €20.1bn secured over the first nine months of the year and 11 funds holding a final close. These numbers dwarf previous years for the region, where totals have tended to fluctuate around a mean of €7.2bn for the five years between 2013-2017.

The largest fund to close in the first three quarters of 2018 was pan-European vehicle EQT VIII, which secured €10.75bn in February, an increase of €4bn on the GP's previous flagship offering. Following this was €4.3bn fund Nordic Capital IX, which closed in May 2018 after seven months on the road. Collectively, these two large-cap funds make up 75% of the Nordic market for 2018, a fact that at first glance seems remarkable. But the long history of private equity in the region has offered the opportunity for firms to grow from large regional players into significant pan-European and even global managers.

This has meant that, when looking at the region as a whole, fundraising numbers are often meaningfully impacted by the activity of these firms raising very large funds.

To illustrate this, looking at the five-year period from 2013-2017, the percentage of aggregate commitments in the market accounted for by €1bn+ funds is 59%, with total amounts raised varying from 15% in 2016 to 88% the previous year. Notably, this metric for 2016 and 2017 was significantly lower than in previous years, highlighting an uptick in activity in the mid-market space.

Round-up

- 11 funds had secured more than €20bn by the end of Q3
- 2018 more than doubles previous annual record with three months left in the year
- Average fund value 2.5x higher than previous peak
- Deal activity soars to €23.6bn in the region

> "As a region, the Nordic countries are probably the most accepting of private equity across Europe"
> *Edward Hutton, Campbell Lutyens*

Scoring a brace

During 2017, 18 funds held a final close raising a cumulative total of €6.5bn, with the mid-market following on from 2016 and chalking up a strong showing. The two largest funds closed during the year were both EQT-managed vehicles: €1.6bn vehicle EQT Mid Market Europe hit its hard-cap

With the fourth quarter of 2018 yet to come, Nordic private equity funds have raised a record amount of money in a calendar year, thanks in large part to a mid-market that is coming of age. Gareth Morgan reports

in May, and EQT Credit III closed on €1.3bn in December. Notably, 2016 and 2017 are the only two years since 2013 in which the largest fund to hold a final close in the region raised less than €2bn, a fact reflected in the lower average fund size for each year. However, it is also notable that the aggregate amounts raised in these two years was not meaningfully down on previous years, a fact explained by the uptick of activity from mid-market managers.

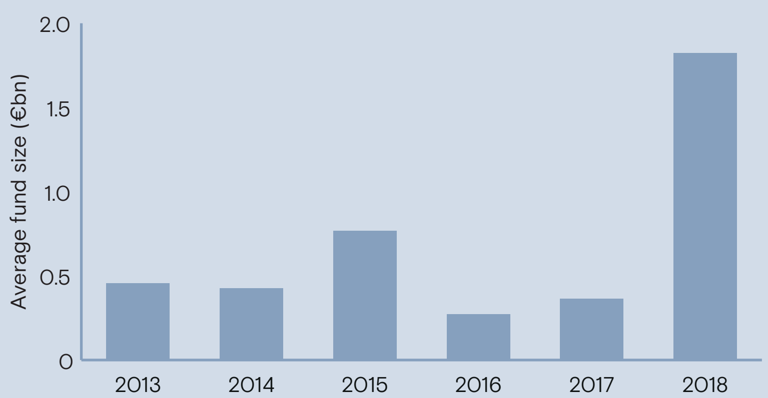
Mid-market resurgence

In the €150m-1bn space, 10 funds held a final close during 2017, raising a total of €3.27bn. This follows a strong 2016 for the mid-market, during which 14 funds raised €4.83bn. These two years mark a significant increase on previous years, reflecting the impact that strong historical performance in the region has had in attracting the attention of international LPs.

"The Nordic market continues to be perceived as an attractive market by LPs," says Adalbjörn Stefansson, head of investor relations at Adelis Equity Partners. "Many already have some exposure to the region, and no-one I've spoken to is looking to scale down."

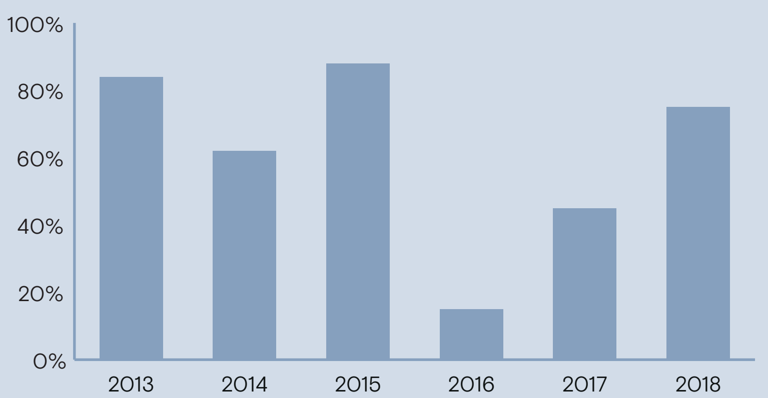
Although the region's larger managers have historically enjoyed attention from international LPs, this has trickled down to core mid-market players. Says Stefansson: "LPs are actively looking for mid-market exposure, particularly European LPs that have been exposed to the Nordic countries for some time and are building out their mid-market portfolio."

Average fund size



Source: *Unquote Data*

€1bn+ funds as a % of the market by value



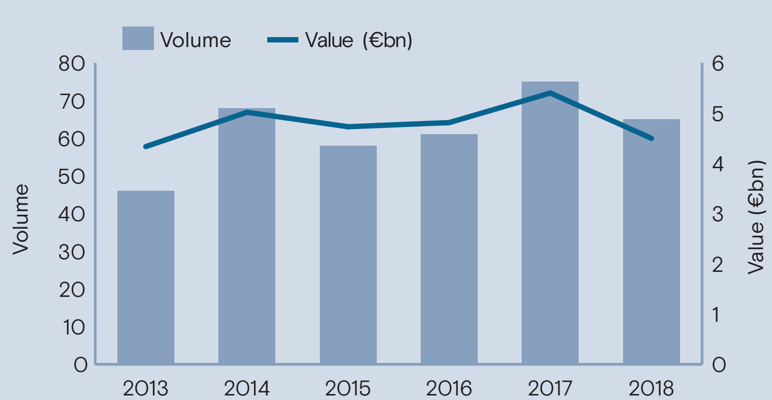
Source: *Unquote Data*

Nordic PE final closes (2017)

FUND NAME	AMOUNT RAISED AT FINAL CLOSE (€m)
EQT Mid Market Europe	1,600
EQT Credit III	1,300
Adelis Equity Partners Fund II	600
Summa Equity Fund I	485
Cubera VIII	405
Dansk Vækstkapital II	389
Procuritas Capital Investors VI	318
Accent Equity 2017	312
Vaaka Partners Buyout Fund III	225
Erhvervsinvest IV	196
Sentica Buyout V	185
KRR III	150
Sunstone Technology Ventures Fund IV	112
CapMan Growth Equity Fund	86
Sunstone Progression Alpha	47
Thule Buyout Fund II	43
Vendep Capital Fund II	40
Icebreaker Ventures I	20
Grand Total	**6,513**

Source: *Unquote Data*

Mid-market buyouts (€25-250m EV)



Source: *Unquote Data*

Unquote reported recently on private equity outperforming other asset classes for Nordic-based LPs, many of which were increasing their allocation to the strategy. Many factors were cited for this increasing appetite, including the contribution from PE firms towards developing sustainable companies.

Making hay

The track record of the industry, as with the fortunes of private equity markets the world over, is closely tied to economic and cultural factors, both of which are particularly conducive to private equity activity in the Nordic region. "As a region, the Nordic countries are probably the most accepting of private equity across Europe," says Edward Hutton, partner at Campbell Lutyens.

Dealflow in the region is supported by corporate spin-outs, which contributed €1.41bn in deal value in the first three quarters of 2018. Alongside this, corporate divestiture also provides a rich stream of management talent that astute private equity firms have been active in tapping. "As well as spinning off divisions, corporates are also spinning out good management teams," Adelis's Steffansson says. "We will often augment entrepreneurial management teams with an addition, either a C-suite executive or a hands-on board member, who have developed their skills at a corporate."

Across the mid-market, where firms have historically grown fund size and moved into the large-cap space, there have been a number of managers happy to remain firmly in the mid-market, but grow manageably. "There are ambitious groups looking to grow fund size significantly, but also several that are happy to increase by 20% and continue operating in the sweet spot they've been successful in," Campbell Lutyens' Hutton says. "For LPs, this offers the opportunity to get pan-Nordic exposure in the classic mid-market space. Growing fund size to €500m and above allows, for example, a US state pension to commit capital of the size they need to, and opens up a broader investor base for mid-market GPs."

Boots on the ground

The boon for mid-market fundraising is in part a consequence of the benefits that local managers have by virtue of being on the ground in the region, able to build networks among management and advisory communities, and spending more time sourcing deals. "Entrepreneurs and managers that we work with like the fact that the senior people they meet are local, speak the language and aren't sitting in London," Adelis's Stefansson says. "They are looking for a partner to grow their business, and will look for chemistry, not just attractive pricing. They will definitely be making reference calls about potential buyers."

Recognising that Nordic mid-market businesses represent a significant opportunity set, LPs have been actively searching out local managers who can offer deeper access.

Supercharged dealflow

GPs in the mid-market space have been decisive in deploying this influx of capital. *Unquote Data* logged a record year in the €25-250m EV buyout space in 2017, with €5.4bn in aggregate EV across 75 deals. The first three quarters of 2018 have continued to build on this momentum, with €4.48bn deployed across 65 buyout deals in this size band. Should this pace continue, 2018 looks on course to approach €6bn in aggregate deal value in the mid-market, significantly surpassing the record year in 2017.

This ramp up in activity in the mid-market is mirrored in the Nordic region's buyout numbers across the size spectrum, with 2018 already logging €23.58bn in EV across 104 deals to the end of Q3, according to *Unquote Data*. This marks a 55% increase in value on 2017, and the second highest annual figure on record, approaching the €28.78bn in EV logged in 2006. With three months of the year to go, 2018 could challenge the previous high watermark of deal activity set 12 years ago.

With both fundraising and deal numbers on course to break records in 2018 and a quarter of the year still to go, the Nordic private equity market looks to be in rude health. ■

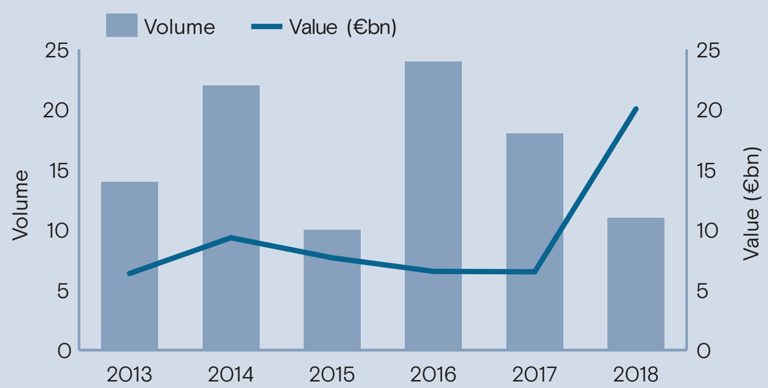
Nordic PE final closes (Q1-Q3 2018)

FUND NAME	AMOUNT RAISED AT FINAL CLOSE (€m)
EQT VIII	10,750
Nordic Capital IX	4,300
PKA AIP 3	2,577
ATP Private Equity Partners VI	800
Axcel V	617
Litorina V	307
Verdane Edda	298
EQ PE X North	175
EQ PE SF II	135
Sintef Venture V	52
Pamica 2	47
Grand Total	**20,058**

"LPs are actively looking for [Nordic] mid-market exposure, particularly European LPs who have been exposed to the Nordics for some time"

Adalbjörn Stefansson, Adelis Equity Partners

Final closes of Nordic PE funds

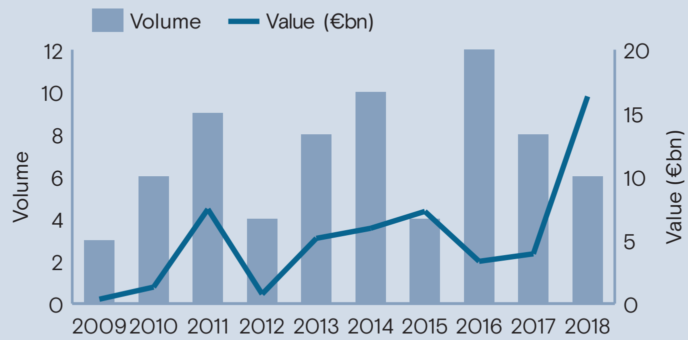


Source: *Unquote Data*

Fund statistics

Buyout/generalist final closes

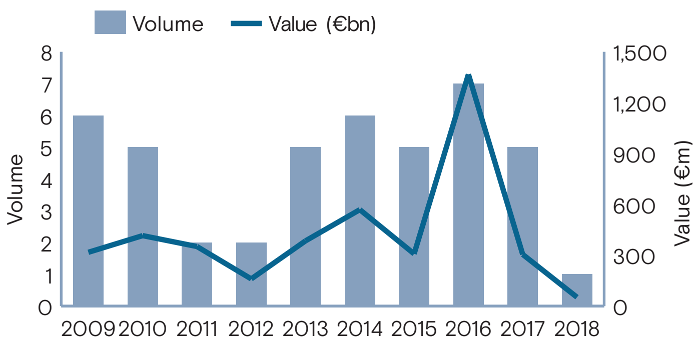
- A huge jump in value in 2018 was driven by Nordic Capital and EQT fund closes.
- With larger funds out of the market, 2019 is expected to be closer to historic norms.



Source: *Unquote Data*

Venture final closes

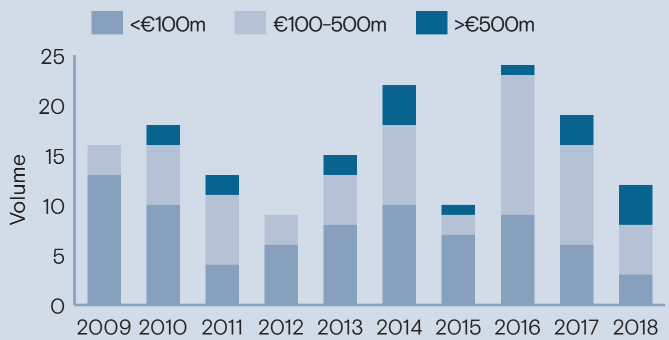
- Sintef Venture V closed on €52.37m in 2018, the only venture fund closed so far this year.
- 2016 saw a large increase in value, with €1.37bn raised in total by seven venture funds.



Source: *Unquote Data*

Funds raised by size

- The mid-market has seen an expansion over recent years.
- There was a notable number of large-cap funds closing in 2017 and 2018.

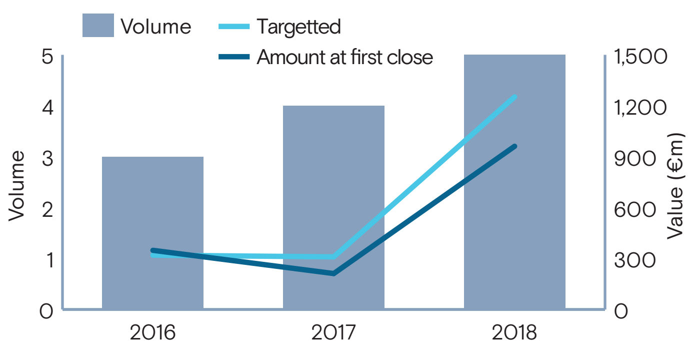


Source: *Unquote Data*

An analysis of Nordic fundraising data over recent years broken down by strategy and fund size, the amount raised relative to other markets, and a look at its typical investors

First closes of funds yet to final close

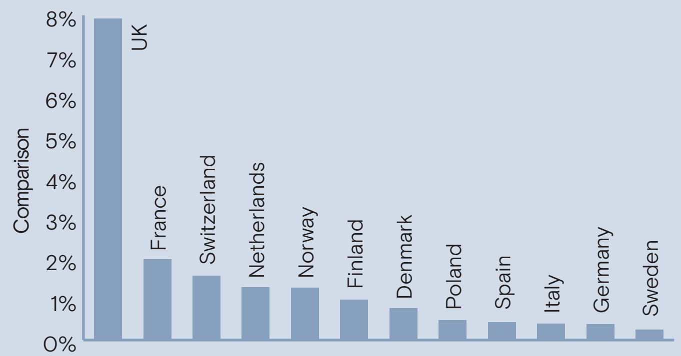
- Funds having held a first close in each of 2016, 2017 and 2018 are cumulatively targeting €1.88bn.
- Twelve funds awaiting final close in the region.



Source: *Unquote Data*

Last five years' fundraising/2017 GDP

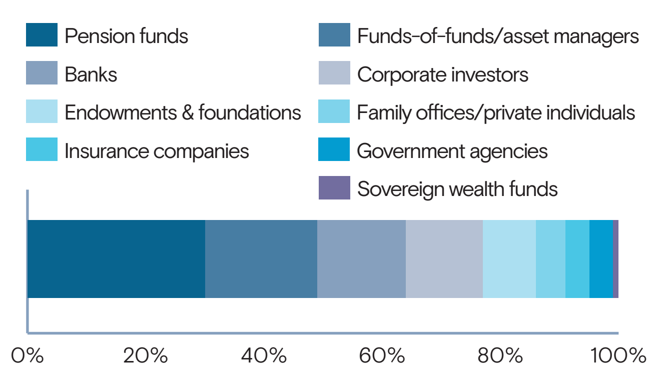
- Fundraising relative to the size of the local economy was notably lower in Sweden for 2017, despite being the largest economy in the region.
- Norway was the strongest fundraising market in the region relative to the size of its economy.



Source: *Unquote Data*

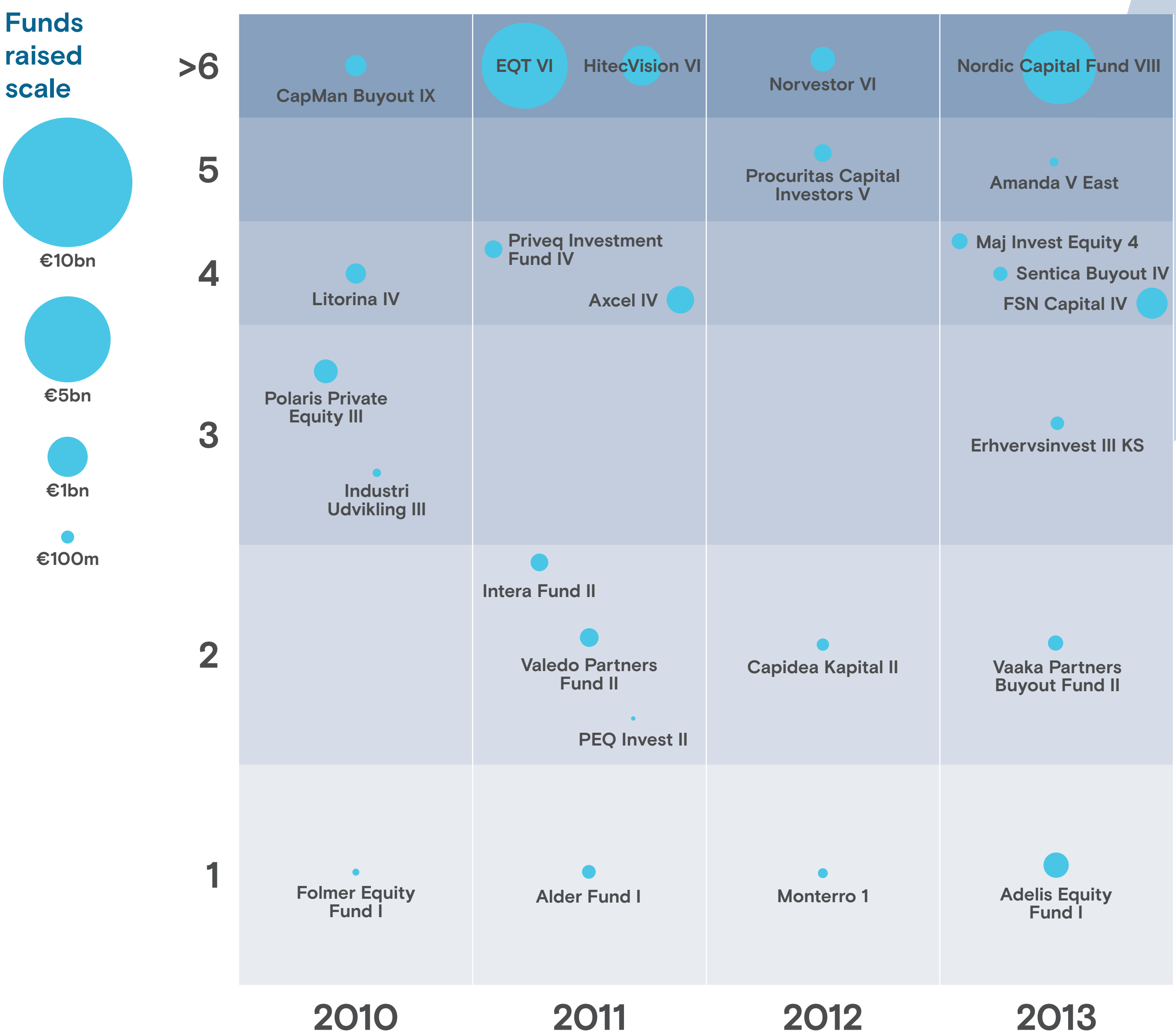
Investors in Nordic PE funds by type (2017 commitments)

- Pension funds and asset managers provided roughly half of the capital invested in Nordic private equity funds in 2017.
- Insurance companies, family offices and sovereign wealth funds contributed less than 10%.

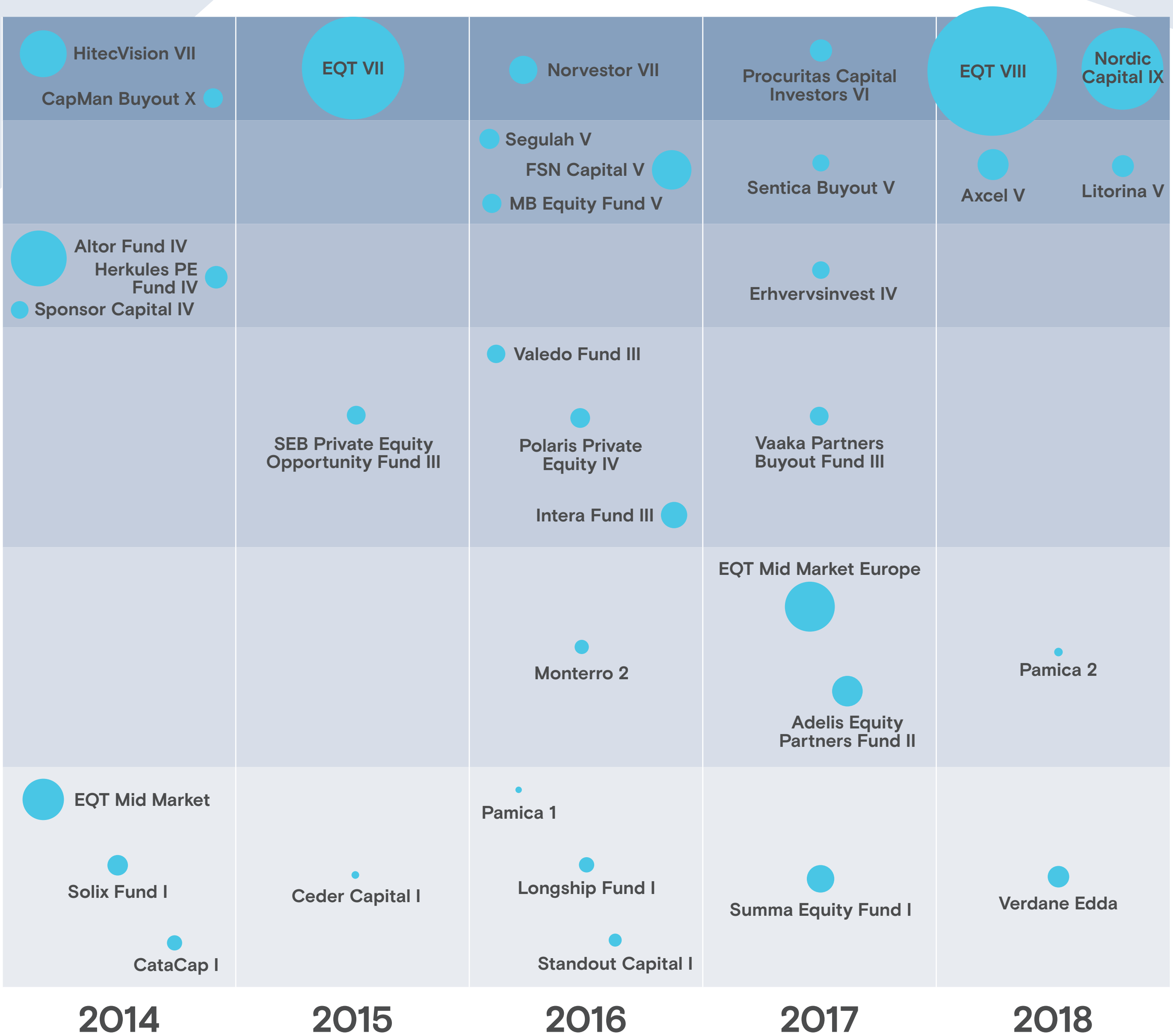


Source: *Invest Europe 2017 European Private Equity Activity*

Nordic PE fundraisers



Final closes of selected buyout, generalist and venture capital funds in the Nordic region since 2010, ordered by the number of funds the GP has raised in a particular strategy, and sized according to the amount raised



New kids on the block find their feet

Gareth Morgan
Research manager

A recent trend across Europe has been the surge in groups taking advantage of the buoyant fundraising conditions to launch a debut fund: *Unquote Data* tracked eight final closes for debut institutionally backed funds in the UK for 2017, and a further nine in 2018. In the Nordic region, however, this trend has been comparatively slow to develop, with only four first-time funds holding final closes between 2013-2017.

However, managers in the early stages of their existence are finding success in the fundraising market, and the Nordic countries look poised for the emergence of a new generation of managers. While they were not especially strong years for fundraising in the region, 2016 and 2017 were notable for a significant increase in mid-market activity. Last year saw 10 mid-market funds securing €3.27bn, and 2016 saw €4.83bn raised by 14 funds between €150m-1bn.

> "For new firms, there's a lot of money out there currently, which makes it easy to find investors, but investors are still very cautious"
> *Adalbjörn Stefansson, Adelis Equity Partners*

Notably, many of these funds have been raised by emerging managers – meaning a GP raising one of its first three institutionally backed funds, and excluding platform expansions by established firms, such as EQT's credit and mid-market offerings.

Two funds managed by emerging managers held final closes in 2013 and 2014, and one in 2015. In 2016, three emerging managers closed funds: CapMan spinout Longship's debut fund closed on €150m in December, Valedo raised €216.78m for its third fund, and Intera also closed its third fund on €250m. Last year saw a significant uptick in this space, seeing five funds managed by emerging managers holding a final close, raising an aggregate €1.85bn.

Out in the cold

"For new firms, there's a lot of money out there currently, which makes it easy to find investors," says Adalbjörn Stefansson, head of investor relations at Adelis Equity Partners, "but investors are still very cautious when it comes to backing new managers."

Adelis was formed in 2012 by former Triton and 3i executives and closed its debut fund on its €420m hard-cap in October 2013, during a time when fundraising conditions made life much harder for a relatively new manager. Just a month prior to Adelis's first fund hitting its hard-cap, Proton Equity Partners abandoned fundraising on what would have been its debut fund after failing to attract sufficient investment, according to reports at the time. Proton, established by former CapMan professionals, was understood to be targeting SEK 2bn, around €230m, having

Emerging managers are slowly but surely leaving their mark in the region and rejuvenating the mid-market landscape. Gareth Morgan investigates

formed in late 2012. While these two situations are not directly comparable, the contrast in fortunes does underline how difficult fundraising was for emerging managers five to six years ago.

Furthermore, the emergence of these relative newcomers is not a direct consequence of a seismic shift in fundraising conditions. The aggregate numbers for fundraising across the region in 2013 and 2017 are broadly similar, while 14 funds raised €6.37bn in 2013, and €6.51bn was secured by 18 funds holding a final close in 2017.

Fresh blood

One factor that may be significant in contributing to the prevalence of newer managers is the influx of international capital into the Nordic region over recent years. With a limited supply of managers in the region, and historically strong performance resulting in high levels of distributions, LPs with existing relationships are very likely to re-up, having the effect of restricting access for newcomers.

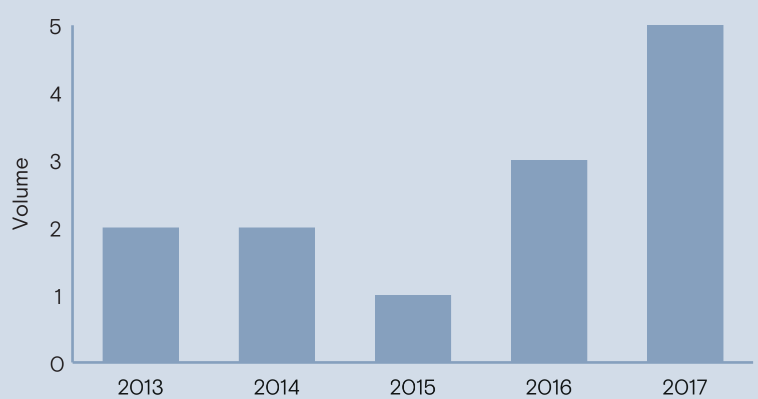
Edward Hutton, partner at Campbell Lutyens, says: "I'd estimate that roughly 75% of LPs in mid-market Nordic funds are international. This is in part a consequence of local LPs building out international portfolios, and overseas institutions looking for exposure to the region."

While it may be speculative to say that international investors are flocking to emerging managers, there is some evidence to suggest this may be the case.

Summa Equity, a lower-mid-market Swedish firm focused on high-growth companies with business models driven by resource scarcity, energy efficiency or changing demographic trends with a data/digital angle, hit the hard-cap of its debut fund in February 2017. According to *Unquote Data*, LPs in the fund include the University of Michigan Endowment, which pledged SEK 345m, HarvourVest and Aberdeen Standard Investments, among others.

The fact that emerging managers operating in the mid-market have raised almost 30% of the region's total capital in 2017 is significant. It could mark a changing of the guard in the mid-market space, with a generation of new managers finding backing from LPs to stamp their mark on the industry. ■

Volume of first, second or third funds closed*



*Exludes new strategies by establsihed GPs

Source: *Unquote Data*

LP Profile: Skandia Insurance Company

Sofia Karadima
LP researcher and writer

"We have been investing in private equity for 29 years, and we will celebrate the 30th next year," says Jonas Nyquist, head of private equity and infrastructure at Skandia Insurance Company.

The 150-year-old Swedish mutual insurance firm has a long track record of investing in the asset class, yet it was in 2007-2008 that there was a marked uptick in its private equity activity following an allocation review. The insurer opted for a 10% target allocation to private equity, when it had roughly 2% exposure at the time.

Skandia has successfully reached its private equity target over the past decade, and now has $3.5bn invested in buyouts and $1.5bn in venture capital. However, a small shift in the private equity asset mix is likely, as Skandia currently has 7% and 3% allocated to buyouts and venture respectively, versus its 8% and 2% target.

> "We are planning to do more [co-investment] in the future, but we need to be cautious when we make those investments, as some of them are pricey"
> *Jonas Nyquist, Skandia Insurance Company*

"We are a bit below our target allocation for buyouts, and we need to grow the portfolio," says Nyquist. As a result, the firm plans to invest with new managers in an attempt to diversify its portfolio and meet its target.

"We typically make eight or nine commitments per year," says Nyquist. "From autumn 2018 to autumn 2019, we plan to back two to four funds with new managers, and between four and six funds with existing managers."

A typical commitment for a buyout fund is around $100m and between €15-25m for venture capital funds. The typical size of private equity funds backed is $1-6bn for buyout vehicles and $300m-1bn for VCs.

Skandia Insurance Company has increased its exposure to private equity from 2% in 2007-2008 to 10% today. Sofia Karadima talks to the firm's head of PE and infrastructure, Jonas Nyquist, about the LP's investment programme and ESG approach

Skandia is an active co-investor, with such investments accounting for 5-10% of its buyouts. However, it has not made any venture co-investments.

"We have done co-investments for quite some time and they look good in terms of returns," Nyquist says. "We are planning to do more in the future, but we need to be cautious when we make those investments – especially at this time – as some of them are pricey."

According to *Unquote Data*, the insurance company committed $12.5m to Siemens Audiology Solutions in 2014, a co-investment deal with EQT. It also co-invested with Cinven in Visma in a secondary buyout.

Building relationships

Skandia has 170 GP relationships – 90 buyout and 80 venture capital – of which 60% are in the US and the remainder in Europe, mainly in the UK, Germany, France and the Nordic countries. Recent Nordic funds the insurance company has backed include Adelis Equity Partners Fund II, EQT Mid Market Europe, and Northzone VIII.

Skandia also has 15 LP relationships, where the majority are Swedish institutional investors that invest in the same funds as Skandia. It started its fund-of-funds business three years ago and there is a one-year commitment period.

Nyquist also adds that the insurer has historically invested in first-time funds, though it is something it does infrequently, as it requires a lot of work and the internal team is relatively small.

Skandia has an ESG-friendly policy and signed the UN principles for responsible investing. "We place a lot of attention on ESG, as we believe that it increases the returns and reduces the risks in investments," says Nyquist.

The insurance firm has the right to be excluded from certain investments, but it is primarily trying to influence the managers in the right direction with regard to responsible investing. "That is the way forward; trying to teach managers how we would like to see ESG being done," he says.

Skandia has a separate ESG team within its asset management division, and it has very close contact with portfolio managers in a bid to get the information needed for portfolio companies. ■

"We place a lot of attention on ESG, as we believe that it increases the returns and reduces the risks in investments"

Jonas Nyquist, Skandia Insurance Company

Key team members

Jonas Nyquist heads the private equity and infrastructure department, but is due to leave at the end of November 2018. He joined Skandia in 2008 and has previously worked as a manager at management consulting firm Arthur D Little.

Daniel Winther serves as investment director at Skandia and will replace Jonas Nyquist as head of private equity and infrastructure. Prior to Skandia, he worked at Arthur D Little.

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Q&A: Nordic Capital's Kristoffer Melinder

Nicole Tovstiga
Reporter

Nicole Tovstiga: You recently held a final close on €4.3bn for Nordic Capital's ninth flagship fund, exceeding the €3.5bn close of its predecessor. How was the fundraising process this time around?

Kristoffer Melinder: In the Nordic region there is strong support for private equity funds that show good returns; we had a re-up rate of 70% from our existing LPs. Since 2011, we have started modernising Nordic Capital and we did this across the entire value chain, including everything from deal sourcing, investment selection, driving value for businesses and making sure our LPs were included in this journey. We have also defined our core sectors such as healthcare, fintech and payments.

"GPs will not get away with a strong history and track record alone. They need to show they can deliver in a competitive market where prices are high"
Kristoffer Melinder, Nordic Capital

NT: How have LP demands and approaches changed over the years?

KM: LPs are becoming increasingly demanding in terms of ESG, transparency in general, and levels of disclosure. We saw this with our predecessor fund, but the trend is still clear – LPs want to make long-term decisions and seek long-term partners.

The strategy among investors has changed, too. Historically, they made multiple bets in a region or strategy, but now they want fewer but stronger relationships because they have seen that excessive diversification does not always protect returns.

Nordic Capital managing partner Kristoffer Melinder speaks with *Unquote* about fundraising in the Nordic region, the increasing importance of ESG, and creating a differentiated strategy in a high-price environment

Most LPs will do their own diligence, including on site, reference calls and financial and strategic analysis. In this sense, the level of depth and sophistication of LP due diligence has increased. It is much more about internal operations of the institution, the level of expertise across the firm – not just management – strength of the brand and network, and the need to conduct deeper market interviews. These changes are driven by a realisation that manager selection matters. Private equity, as an asset class, performs well compared to others, but it is the capital allocated to top managers that will lead to outperformance.

NT: What are the overarching trends in the Nordic fundraising market?

KM: An increasing demand for transparency and due diligence scrutiny on the ESG and manager side are prevailing trends. As a private equity fund, we need to be able to address all of these, and the days where you could be a small shop, where you spoke with LPs every four years, are long gone. GPs are required to keep an active two-way dialogue and a high level of transparency with investors. There is the need to have an investor mentality aligned with this. It is what society expects.

NT: How has Nordic Capital dealt with pressures in a competitive fundraising environment?

KM: To succeed you need to show you are differentiated in a competitive industry. For us it is about having a strong emphasis on creating real value through team insights and a focus on driving operational improvement and transformative growth at the company level. GPs will not get away with a strong history and track record alone. They need to show they can deliver in a competitive market where prices are high. It is also helpful to have true insights into niche areas. For us, it is sectors such as payments. Of course, one cannot have leadership in the entire sector and region, but if you are more sensitive, you can have insights that allow you to buy true gems in the market and develop these into diamonds. This is increasingly important on the commercial side and is what LPs are looking for.

NT: With the Nordic region at the forefront of ESG, how do you see approaches to this evolving?

KM: The ESG trend is something that needs to be a core part of operations – it needs to be integrated across the business from managers to investment teams. And while it can contribute to the value creation aspect of a business, on the flip-side, if not done right, it is also a risk factor for returns. Most importantly, do not think you can outsource ESG, or treat an internal outsourcing of ESG as a separate function. We have three levels of mandatory training for staff and the managers of our portfolio companies. It is important to know what it takes – guidelines and practises require training and compliance systems to be understood and to work. ■

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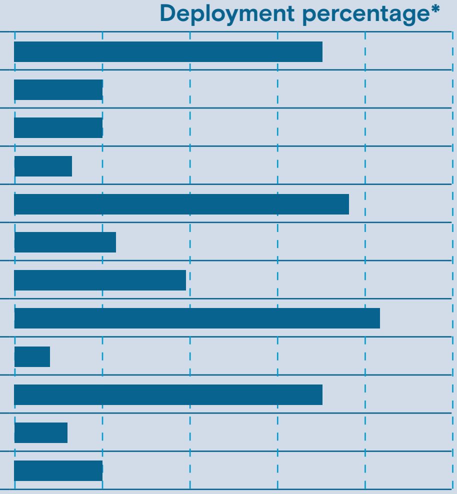
Fund deployment and pipeline

Locally managed funds currently investing in the Nordic region with deployment figures, and a selection of funds currently in the market, sourced from *Unquote Data*

Funds deploying capital

Fund manager	Fund	Size (€m)	Deployment percentage*
Altor Equity Partners	Altor Fund IV	2,000	
EQT Partners AB	EQT Mid Market Europe	1,600	
EQT Partners AB	EQT Credit III	1,300	
FSN Capital	FSN Capital V	1,000	
Accent Equity Partners	Accent Equity 2012	415	
Cubera Private Equity	Cubera VIII	405	
Northzone Ventures	Northzone VIII	300	
Maj Invest Equity	Maj Invest Equity 4	163	
North Sea Capital	North Sea Capital PE Fund of Funds	122	
Certior Capital	Certior Credit Opportunities Fund I	87	
Lifeline Ventures	Lifeline Ventures Fund III	57	
Skandia Fonder	Thule Buyout Fund I	47	



*Includes *Unquote* estimates

Source: *Unquote Data*

A selection of Nordic funds on the fundraising trail

Fund	Fund type	Raised (€m)	Target (€m)	Fund status
Altor Fund V	Buyout	n/d	2,500	Open
Danish SDG Investment Fund	Buyout	551	672	First Close
Certior Credit Opportunities Fund II	Fund-of-funds	51	300	First Close
CapMan Buyout XI	Buyout	n/d	n/d	Open
eEquity IV	Venture	60	155	First Close
Alder Fund II	Buyout	97	146	First Close
Inventure Fund III	Venture	110	135	First Close
Capidea Kapital III	Buyout	101	134.33	First Close

Source: *Unquote Data*

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+44 (0)20 3741 1000

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Copy & Production Editor – Tim Kimber
Managing Director – Catherine Lewis

For advertising enquiries – Justin Raveenthiran
+44 (0)20 3741 1390 justin.raveenthiran@acuris.com
For subscription enquiries – Omar Khazen
+44 (0)20 3741 1388 omar.khazen@acuris.com