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analysis

nordic survey 2014

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Chambers Europe 2012: Client about Delphi's private equity practice

Tax case too much to carry

PPRIVATE EQUITY in the Nordic region has experienced a turbulent year, with sluggish dealflow and continued concerns over the uncertain regulatory environment.

More than half (56%) of respondents to our survey attributed Sweden's drop in dealflow to the uncertain regulatory environment. The headline issue has of course been the Swedish tax authority's continued attempts to qualify carried interest as income and, hence, levy income tax and social security charges thereon.

The attention has most recently been centred on Nordic Capital's successful appeal in the high-profile carried interest tax battle against Skatteverket last year. The tax authority has since filed a counter-appeal with the Supreme Court. The decision as to whether or not the Supreme Court will grant leave of appeal will be made over or after the summer, and this latest appeal only adds to continued uncertainty in the Swedish market.

Fortunately, activity is picking up, but from a low level. In Sweden, deal volume is still to recover fully: there were just 18 investments in Q1 2014 in the country. This is up from 14 in the same period last year but significantly lower than the 44 of Q2 2012. The contrast between the overall deal value is almost as stark – down from €2.6bn in Q2 2012 to €752m in the first three months of 2014.

However, following two years of declining activity in the Nordic region, Q1 2014 showed signs of dealflow picking up overall. Drilling

down into the different market segments, buyouts in particular were at their highest level this year since Q2 2011, when there were 30 such deals. After a brief flurry of 24 buyouts in Q2 2013, the following two quarters saw consecutive drops to 17 and 10 transactions respectively. In comparison, last quarter's figures show 28 buyouts with a combined value of €3.8bn, the highest amount in almost three years.

Despite the encouraging figures, Sweden's upcoming elections present yet another concern for Nordic PE. Indeed, 36% of respondents to our survey believe over-regulation to be the industry's most pressing issue. Anecdotal evidence suggests with the media spotlight still trained on private equity's involvement in the welfare sector, there is a real possibility of left-of-centre politicians introducing bans or restrictions on profits in the sector.

However, as political headwinds continue to rage on, private equity practitioners remain calm and focused: a significant proportion of survey respondents believe there will be no major changes in the region's private equity market environment over the next 12-24 months.

What is clear is that despite potential difficulties arising from the ongoing tax cases and the upcoming elections, the Nordic region remains a stronghold of European private equity with its enviable macroeconomic environment, outward-looking markets, liquid and supportive banks and a PE industry built firmly on the grounds of operational improvement.



David Aversten,
partner, head of
private equity,
Delphi

www.delphi.se

About Delphi

Delphi has expertise in all core areas of commercial law. An important part is the corporate desk, with a large number of domestic and cross-border M&A's and an extensive banking, finance and capital markets practice. Delphi is also well established in high-tech related legal areas such as IT, telecoms and intellectual property.

Delphi has clients mainly in Scandinavia, Europe and North America and further co-operates with law firms all over the world including China and Eastern Europe. Delphi regularly acts for Nordic and international private equity and venture funds on acquisitions and divestments, acquisition finance, management incentives as well as IPOs. Delphi's private equity practice also includes fund formation and LP advisory.

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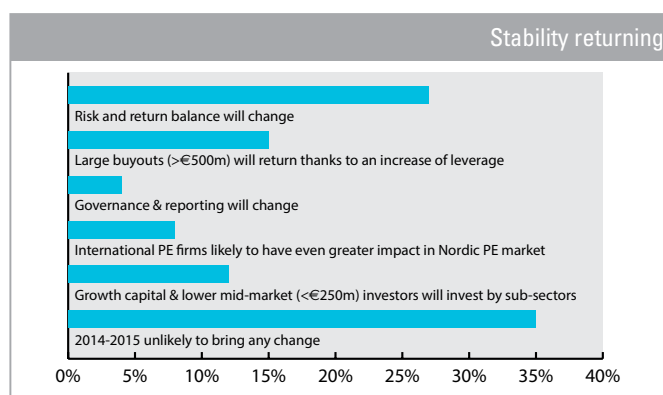
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STATISTICAL COMMENTARY

Do you think the current private equity market environment is likely to change substantially over the next 12-24 months?

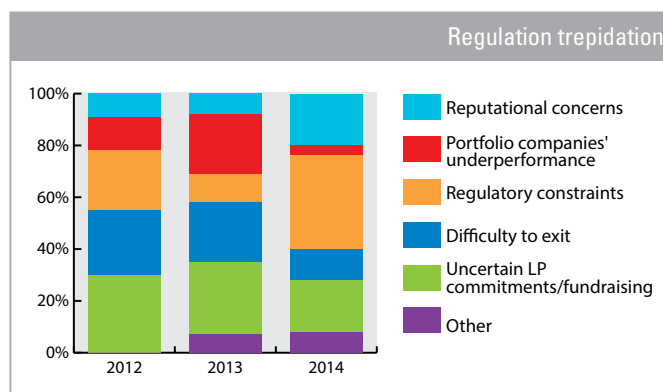
As per usual, a majority of survey respondents are expecting to see some form of change in the next 12-24 months in the region – although the proportion of professionals expecting a largely unchanged environment rose from 28% last year to 35% in 2014. The nature of the changes expected has also evolved significantly in the past year, with a new risk/return balance now being the most anticipated evolution (27% against 19% in 2013). Further highlighting the rapid improvement witnessed in the debt markets, 15% of respondents now expect to see a return of large-cap buyouts thanks to an increase in available leverage, against 9% a year ago.



Source: unquote™ data

What is the biggest issue facing private equity funds?

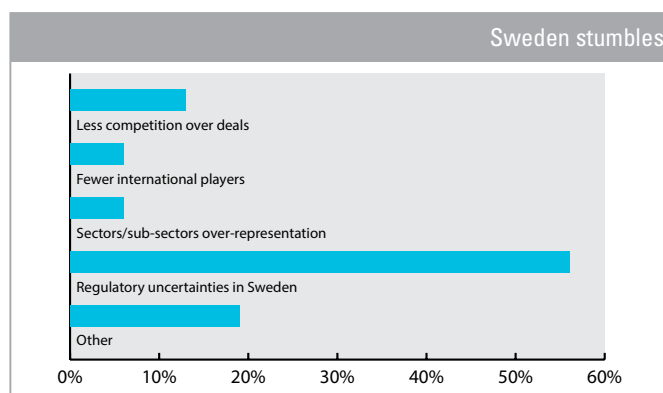
Although a majority of respondents are anticipating changes in the deal-making environment, the biggest challenges they are currently facing could be seen as external threats. Regulatory constraints are very much back on the agenda after a brief respite last year, with more than a third (36%) of respondents singling them out as the biggest issue currently faced by private equity (against just 11% last year). Perhaps unsurprisingly given the much publicised tax rows involving local players last year, reputational concerns have rapidly gained in prominence: a fifth of respondents (20%) name these as the biggest issue, against 8% in 2013.



Source: unquote™ data

Despite difficult market conditions in 2013, Denmark, Finland and Norway managed to maintain a relatively steady flow of deals over the year, where Sweden saw a big drop in dealflow. What has driven this change in the balance of activity?

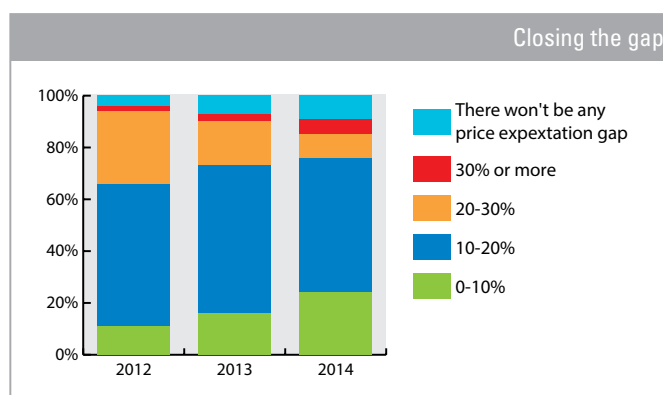
The lower levels of activity witnessed in Sweden over the past year perfectly illustrate the potential impact of the regulatory sword of Damocles currently hanging over the local private equity industry. More than half (56%) of the respondents attribute 2013's lacklustre Swedish dealflow – and the comparative uptick seen in neighbouring countries – to regulatory uncertainties. A number of hot topics indeed gained significant exposure and traction in the country in recent months, from the heavier taxation of carried interest to the regulator's reluctance to see private equity invest in the healthcare and education sectors.



Source: unquote™ data

Do you expect there to be a price expectation gap between buyers and sellers. If yes, how big will the difference be?

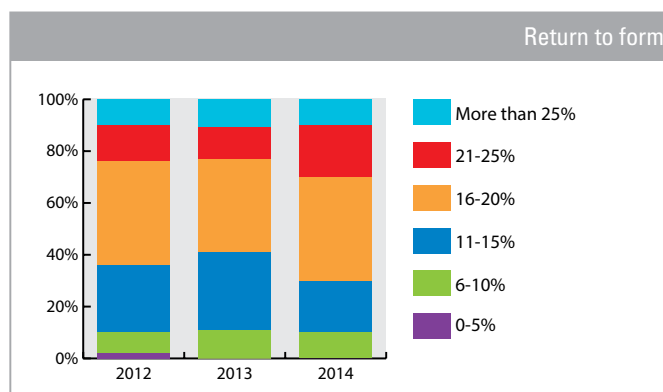
Concerns over Sweden's regulatory framework aside, the optimism surrounding dealflow drivers is apparent when looking at an issue thought to have been affecting the market for some time: the pricing expectation mismatch between vendors and buyers. Nearly one in ten respondents (9%) believe the gap will decrease in the coming months, against 7% in 2013 and 4% the year before. While a vast majority of respondents do expect the situation to persist, the amplitude of this gap is also expected to narrow: two thirds (67%) of respondents believe the gap will be in excess of 10%, against 78% in our previous survey. A quarter of those surveyed expect the gap to be less than 10%, when they were just 16% in 2013.



Source: unquote™ data

What is the anticipated IRR for the acquisitions/investments made during 2014/2015?

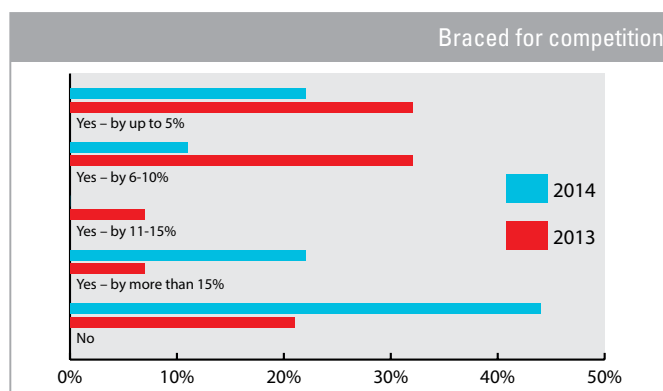
Given the positivity surrounding these various market drivers, it is not surprising to see respondents bullish when it comes to the expected returns for investments made in the next couple of years. Overall, 70% of the professionals surveyed expect to see an IRR in excess of 15%, where 59% expected similar returns in last year's survey. The proportion of respondents predicting returns at the extremes of the spectrum (IRR of less than 10%, or in excess of 25%) has remained stable year-on-year, while the 16-25% IRR segment has progressed the most.



Source: unquote™ data

Do you expect Nordic investments to outperform European ones this year?

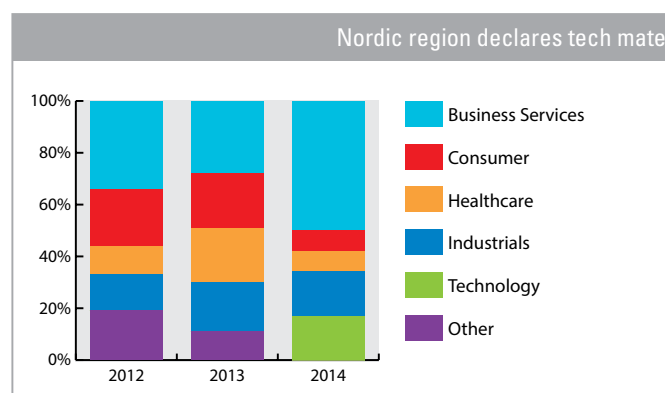
Despite optimistic returns expectations, the comparative advantage the Nordic region was previously enjoying appears to be shrinking. Nearly half (44%) of respondents to this year's survey do not expect Nordic investments to outperform European ones this year, against just a fifth (21%) in 2013. That said, attitudes seem to be polarising, with the proportion of respondents expecting Scandinavian investments to outclass European ones by more than 15% jumping from 7% last year to 22% in the 2014 survey.



Source: unquote™ data

Which sector do you think will be most appealing to private equity buyout funds in the Nordic region over the next 12-24 months?

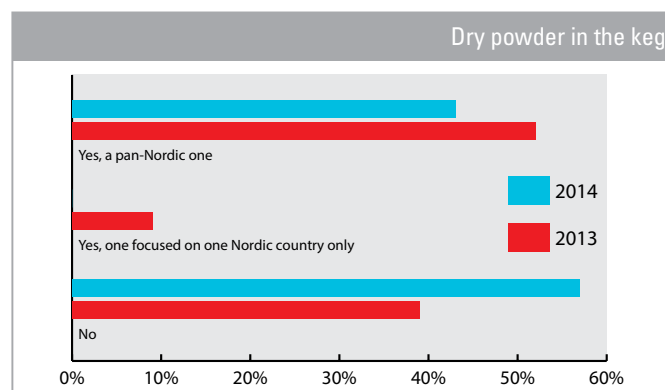
This year's survey reveals important shifts in the priorities of investors in the Nordic region, with the consumer segment in particular rapidly falling out of favour after a brief surge last year: only 8% of respondents expect it to be the most attractive to private equity players in the next 12-24 months, against 21% in 2013. Healthcare also registered a similar drop, no doubt influenced by the increased public scrutiny over private equity's reach in this sensitive sector. On the other hand, technology is very much back in favour (winning over 17% of respondents, against none in last year's survey), while business services is seen as the most promising segment by a majority of respondents – mirroring the increasingly positive sentiment when it comes to the region's macroeconomic strengths.



Source: unquote™ data

If you are a GP, do you plan to raise funds focused on the Nordic countries over the next 12-24 months?

It doesn't seem like the bullishness witnessed around key dealflow drivers in the survey will translate to a fundraising rush: more than half of the GPs surveyed (57%) have no plans to raise a vehicle targeting the region in the next 12-24 months, against 39% in the previous survey. Still, 43% of the GP respondents will look to raise a pan-Nordic vehicle, while the appeal of country-specific funds seems to be waning; none of those surveyed intend to raise such a fund, against one in ten last year. It must also be noted that several key players – such as EQT, CapMan, Nordic Capital and FSN Capital – already hit the road in the past 18 months, leading to a healthy amount of capital ready to be deployed in the region in the next five years or so.



Source: unquote™ data

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"Deloitte sees unquote⁹⁹ data as a high quality, reliable research tool. There is not a source of data on European buyouts like it."

**Richard Parsons, Director,
Corporate Finance Advisory, Deloitte**



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LEAGUE TABLES

Buyouts

	2009	2010	2011	2012	2013	Q1 2014	Total
EQT Partners	2	2	6	3	4	2	19
CapMan Group	2	4	3	2		4	15
Accent Equity Partners	1	2	5		3	1	12
Altor Equity Partners	3		5	1	3		12
Herkules Capital	2	3	2	1	2	2	12
Nordic Capital	1	2		6	2		11
Polaris Private Equity	2		2	4	1	2	11
Sentica Partners	2	2	4	1		2	11
Triton Advisers	1	3	2	1	3	1	11
Axcel	1	2	1	2	4		10
FSN Capital	3	1	1	2	2	1	10
Intera Equity Partners	1	5	3	1			10
Procuritas	1	4	3	2			10
HitecVision	3	2		2	1	1	9
Norvestor Equity		3	1	4	1		9
Ratos Holding		4	1	1	2		8
Segulah	1	3	1		2	1	8
Litorina Kapital		2	2	3			7
Maj Invest Equity (LD Invest Equity)	2	2	1	2			7
Valedo Partners	1	1	2	2	1		7
Capidea Management	1	2	1		1	1	6
Karnell	1	2	2	1			6
Priveq Partners	1		1	4			6
Via Venture Partners	1	1	1	1	2		6
PEQ		2	1	2			5
Reiten & Co Capital Partners	1		2	2			5
Bain Capital Europe			1	1	1	1	4
Ferd Capital		1	1	1	1		4
IK Investment Partners		2		1	1		4
Vaaka Partners Ltd (Formerly Pohjola)			2	1	1		4

Early-stage

	2009	2010	2011	2012	2013	Q1 2014	Total
Seed Capital	1	5	6	6	13		31
Chalmers Innovation	13	4		5	1		23
Swedish Industrial Development Fund (Industrifonden)	3	2	6	3	4	1	19
Almi Invest	2	5	2	3	5		17
Sunstone Capital	1	5	3	3	1		13
Creandum	1		2	3	3	3	12
Vækstfonden	3	4	1	1	1		10
Investinor	4	2	1		1		8
Teknoinvest	4	2	1				7
Sarsia Seed Management	1	2	1	1	2		7
Sting Capital (Stockholm Innovation & Growth)	4	1	2				7
SEB Venture Capital	1		2		1	1	5
HealthCap Private Equity	2	2			1		5
Viking Venture	3	2					5
Lifeline Ventures		1	1	2	1		5
Norinnova Forvaltning		3	1	1			5
Provider Venture Partners	1	2	1				4
London Venture Partners			3			1	4
InnovationsKapital Management	3	1					4
SamInvest Mitt		2		2			4
Finnish Industry Investments	1		1	1			3
Contango Kapital	2	1					3
Fouriertransform		1	1	1			3
Northzone Ventures	2	1					3
Atomico Ventures			1	1	1		3
Nano Future Invest	1	1	1				3
Via Venture Partners	1	2					3
Index Ventures			2	1			3
Finnish National Technology Agency		1		1	1		3
VNT Management	1	1			1		3

NORDIC SURVEY

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Legal

	2009	2010	2011	2012	2013	Q1 2014	Total
Vinge	11	8	11	9	3		42
Delphi	5	12	6	6	4	3	36
Mannheimer Swartling	3	9	8	4	5		29
Roschier	2	7	7	8	1	2	27
Wiersholm Mellbye & Bech	4	6	8	2	2	1	23
Hannes Snellman	3	6	3	3	1	1	17
White & Case	5	4	5	1	1		16
Accura		3	3	4	3	2	15
Krogerus	2	6	4			1	13
Castrén & Snellman Attorneys	2	3	4	1	2		12
Schjodt	2	3	3	2	2		12
Cederquist	3	2	3	1	2		11
Gernandt & Danielsson	1	3	6	1			11
Kromann Reumert	4	2	2	1	2		11
Arntzen deBeche		6	4				10
Lindahl	3	6	1				10
Steenstrup Stordrange		8	1		1		10
Clifford Chance	1	3	1	3	1		9
Thommessen	2	2	5				9
Baker & McKenzie	1	4	1	2			8
Selmer	2	3	1	1		1	8
Bird & Bird	1	1	4	1			7
Gorissen Federspiel		1	2	1	2	1	7
Torngren Magnell	3	2	1	1			7
Andulf Advokat	1		3		2		6
BA-HR		1	2	1		1	5
Bech-Brunn	2			1	1	1	5
Bruun & Hjejle	2	1	1	1			5
Freshfields Bruckhaus Deringer			1	1	1	2	5
Setterwalls	1	3	1				5

Corporate finance

	2009	2010	2011	2012	2013	Q1 2014	Total
SEB Enskilda	6	4	5	6	2		23
ABG Sundal Collier	6	4	4	1	4	1	20
Carnegie Bank	3	4	2	1	2	1	13
Nordea Bank	2	2	2	4			10
Arctic Securities	4	2	1	1	1		9
DNB Nor	6		1	1			8
Handelsbanken Capital Markets		3	4		1		8
PwC UK		1	3	1	3		8
KPMG's Private Equity Group	1	1	2	1	1	1	7
Morgan Stanley	1	2	2	1	1		7
UBS		2	2		1	1	6
First Securities	2	2	1				5
Danske Markets		3			1		4
FIH Partners	1			1	2		4
Goldman Sachs London	1		2	1			4
Access Partners		1	1			1	3
Avantus Corporate Finance		1	2				3
DC Advisory Partners		2			1		3
GP Bullhound		1	1	1			3
JP Morgan Chase	1				1	1	3

Financial due diligence

	2009	2010	2011	2012	2013	Q1 2014	Total
PwC UK	12	22	16	8	4		62
KPMG's Private Equity Group	12	17	14	2	8	1	54
EY - Transaction Advisory Services	7	16	17	6	4		50
Deloitte	4	13	8	5	4	1	35
Grant Thornton UK	5	5	5			1	16