Delphi

unquote INTELLIGENCE

NORDIC SURVEY 2011

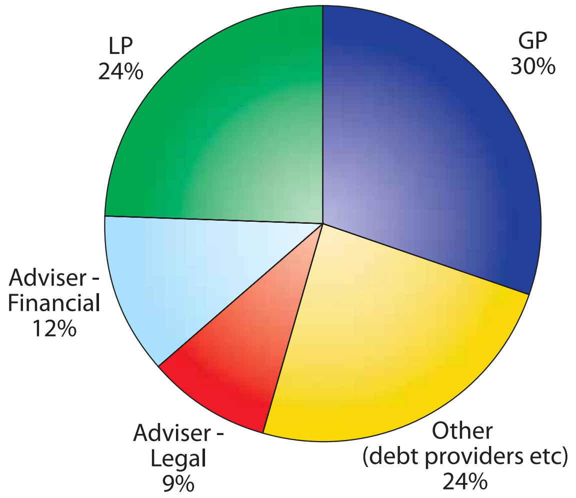
FIRST EDITION

Respondents

unquote" Nordic Private Equity Congress Survey

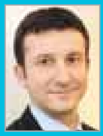
The following results are based on an on-site survey of conference attendees, conducted by the law firm Delphi at the *unquote"* Nordic Private Equity Congress held in Stockholm on 31 May 2011. The survey captures the views of approximately 100 attendees representing all areas of the private equity industry.

Survey respondents by type



Source: *unquote"*

Delphi prides itself on being Sweden's most proactive law firm. Its 140 lawyers provide expertise in all areas of commercial law, with a particular emphasis in corporate finance and high-tech fields such as IT and telecoms. The firm 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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Nordic resolve

David Aversten, partner, head of private equity, Delphi
www.delphi.se

The Nordic private equity market made big strides in its recovery in the first half of the year. Led by strong activity in its largest market, Sweden, the region was on track to record volume and value levels last seen during the market's heyday.

While the mid-market continued producing deals even through the downturn, 2011 further saw the return of the mega-buyout with three such transactions being so far recorded in Sweden. EQT announced two such deals; the SEK 12bn acquisition of Dometic Group in April and then, as vendor, 2011's largest European buyout so far, selling monitored alarm provider Securitas Direct to Bain Capital and Hellman & Friedman for SEK 21bn. The hat-trick of mega-buyouts was then completed with BC Partners' acquisition of triple play company Com Hem for SEK 17bn from Carlyle and Providence Equity Partners. Indeed, the mega-buyout count could have risen further but trade buyer Dentsply International outbid a number of private equity houses in the SEK 11.4bn auction of dental and medical devices company AstraTech.

Deal activity, though, was not reserved to the buy side alone and improving market conditions saw many portfolio companies brought to market that had been nurtured and readied for an exit in the past couple of years. Notably, Nordic Capital's SEK 90bn sale of pharmaceutical company Nycomed to Japanese corporate Takeda grabbed the headlines, as did Cinven's exit of in-vitro allergy diagnostics company Phadia to Thermo Fisher Scientific for SEK 22bn.

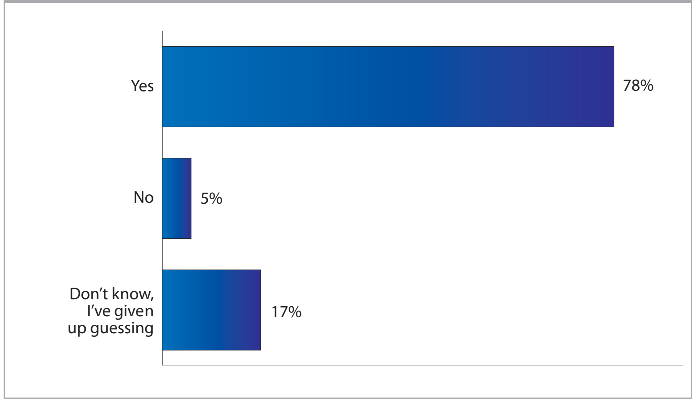
This, of course, was the picture before the summer break and most private equity professionals would have left for their holidays in high spirits. August, though, saw plummeting public markets and a darkening macroeconomic outlook. Given the changing environment, it remains to be seen whether 2011 will end up being regarded as a year of two halves. The survey for this report, of course, took place before the summer and should be seen in that perspective. Nevertheless, it will be interesting to see which portion of respondents got their predictions right. ■

Results

1. Has Sweden's economy recovered?

Given the bounce back of the Swedish economy in 2010, following the substantial GDP contraction by 4.9% in 2009, it is hardly surprising that four out of five respondents believed the economy to have sufficiently recovered. Indeed, the GDP growth of 5.7% in 2010, the highest in Western Europe, would suggest it has. The economic rollercoaster ride of the past few years has also created uncertainty, illustrated by the 17% of respondents that weren't sure how to judge the current state of the economy.

Question 1

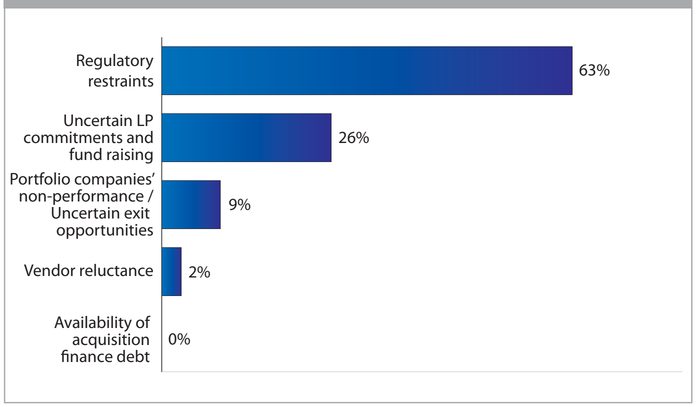


Source: *unquote"*

2. What is the biggest issue currently facing private equity funds?

The market decline witnessed over the past few years has resulted in a number of challenges facing industry professionals. Respondents saw regulatory restraints to be by far the biggest issue for the private equity industry, in the light of numerous new regulations currently being implemented or in the works. Given the well publicised reduction in LP allocations to private equity, a quarter of those surveyed regarded fundraising to be a main issue for the industry. Only a tenth saw struggling portfolio companies and difficult exit conditions as an issue – one would expect this figure to have been certainly higher 12 months ago.

Question 2

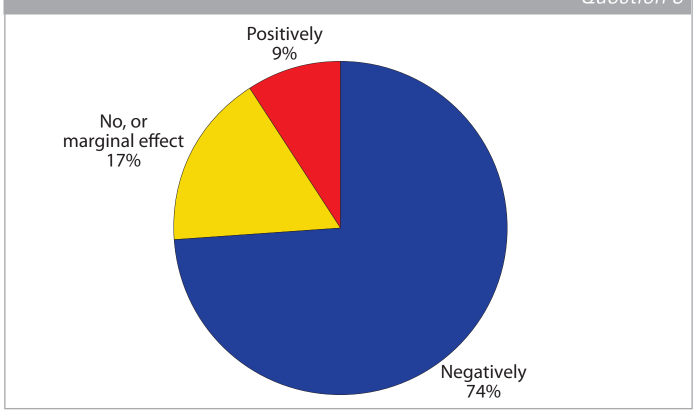


Source: *unquote"*

3. How will regulatory issues (AIFM, tax initiatives etc) affect the private equity industry over 1-3 years?

With regulatory restraints regarded as the major issue facing private equity funds, three quarters of the respondents further thought that regulatory issues, such as the AIFM and tax initiatives, are going to negatively affect the private equity industry over the next 1-3 years. Those seeing current regulatory changes as beneficial are clearly in the minority with only close to a tenth expecting a positive effect. Notably, 17% think the changes will have little or no impact at all.

Question 3

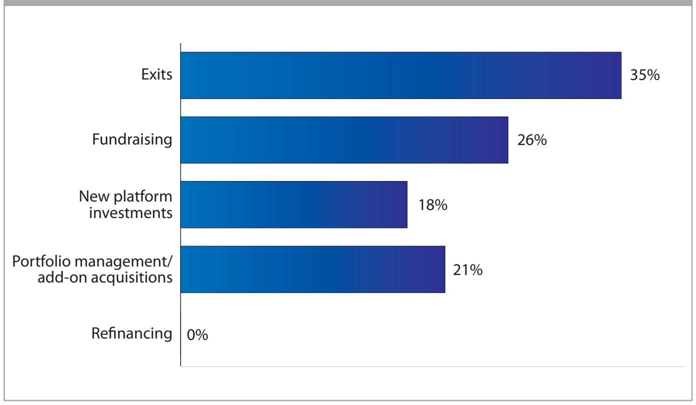


Source: *unquote"*

4. What will GP's focus their efforts on in 2011?

Following two years of exit activity that can be described at worst as "non-existent" and at best "limited", respondents believe GPs to be taking advantage of improving market conditions and divesting portfolio companies. A further 26% deem fundraising to feature high on a GP's agenda. With investors' focus shifted towards exiting businesses to support fundraising efforts, only one in five respondents believed GPs would focus on making new investment in 2011. Instead, improving the performance of portfolio companies, for example through add-on acquisitions, is thought to be of higher importance for private equity funds.

Question 4

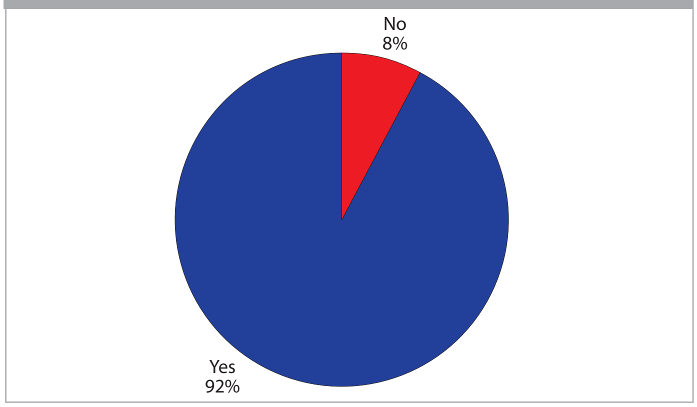


Source: *unquote"*

5. If a GP, do you plan to do platform investments in the Nordics during the next 12 months?

GPs themselves will continue to focus on developing their portfolio companies, with more than 90% expecting to make platform acquisitions in the Nordics over the next 12 months. It seems most GPs intend to take advantage of the currently still reasonable purchase multiples available in the market, while at the same time looking to bolster and grow their existing portfolio investments that have made it through the crisis unscathed.

Question 5

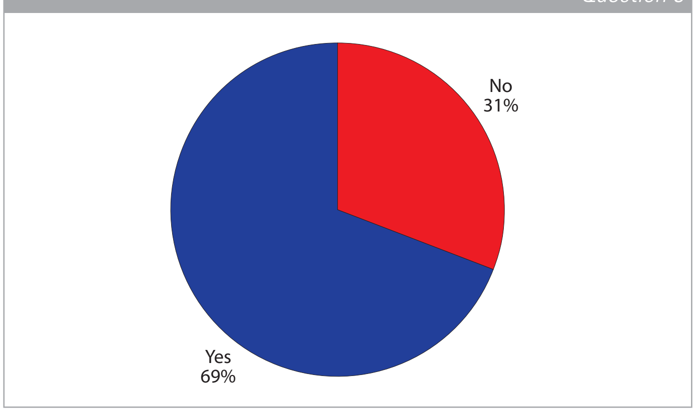


Source: *unquote"*

6. If a GP, do you plan to raise funds focused on the Nordics over the next 1-2 years?

The industry is moving into the next fundraising cycle, as further evidenced by seven out of 10 GPs indicating they are looking to raise a fund in the next 24 months. While many private equity houses have held off their fundraising ambitions in the past two years due to bleak market conditions, the ongoing recovery has encouraged GPs to review their options. Additionally, the fact that many investment periods are about to end or have already will inevitably result in heightened fundraising activity.

Question 6



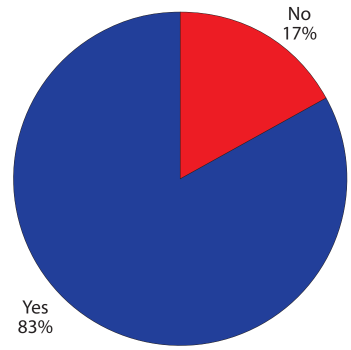
Source: *unquote"*

Results

7. If an LP, do you plan to invest in funds focused on the Nordics over the next 1-2 years?

Positively for GPs, LPs are once again open to back new investment vehicles. The Nordic region remains an attractive investment proposition for LPs, with more than 80% intending to commit to Nordic-focused funds in the next 24 months. The consistently strong returns achieved by such funds coupled with a positive economic outlook for the region has resulted in funds focused on the Nordics maintaining their prime position on LPs' investment wish-lists in Europe.

Question 7

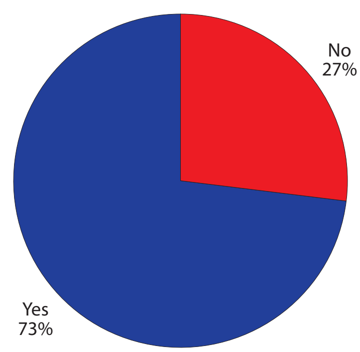


Source: *unquote"*

8. If an LP, do you plan to invest in funds focused on other regions over the next 24 months?

There is further good news for GPs in general, as LPs are further planning to make new commitments over the next 24 months irrespective of region. This is not surprising as more substantial distributions have started to flow back to investors. That said, although LPs are open to making new commitments, recent evidence suggests that investors are reducing their partnerships and are going to be more selective going forward.

Question 8

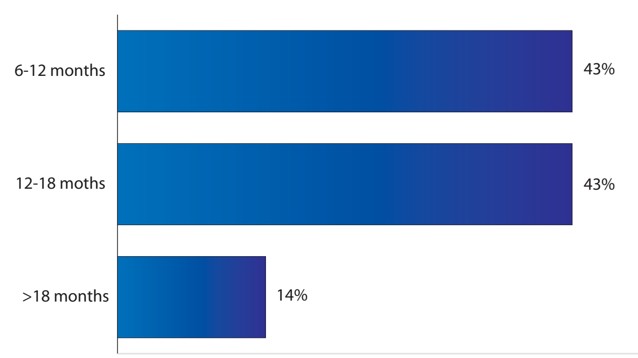


Source: *unquote"*

9. Regardless of regional focus, how long do you anticipate it will take to conclude your next fundraising (from sending PPMs to final close)?

Fundraising schedules are back to pre-crisis levels as almost nine out of 10 respondents expected it will take between 6-18 months to conclude their next fundraising. In a sign of improving market conditions, only 14% anticipated the fundraising process to take longer than 18 months. One would expect this percentage to have been significantly higher among industry professionals in the downturn when fundraising came to a virtual stop.

Question 9

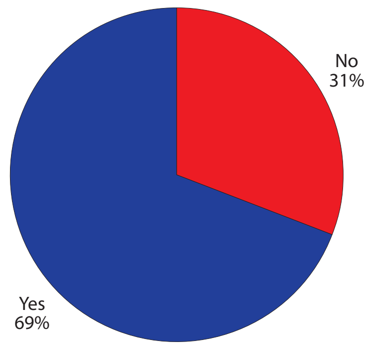


Source: *unquote"*

10. Do you think there will be a change in the compensation structure for private equity professionals in the next 1-5 years?

The recent market downturn has led to the pendulum swinging clearly into the LPs' corner. This is further highlighted by the almost 70% of respondents that foresee a change in the compensations structure for private equity professionals in the next five years. The fee structure is said to have already come under scrutiny in fundraising discussions. As far as management fees and carry is concerned, the model has so far resisted LP pressure. Other factors that may impact compensation structures are recent tax initiatives, for example in relation to carried interest.

Question 10

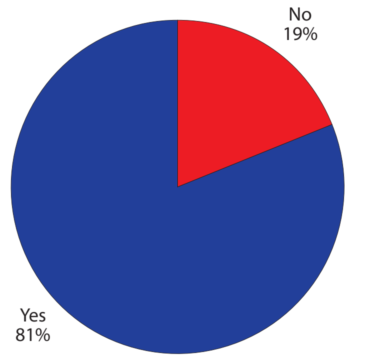


Source: *unquote"*

11. Will some GP's fail in their next fundraising?

The downturn is expected to impact returns of fund vintages raised at the top of the market. In particular, the ensuing recession and contraction of purchase multiples is likely to dampen returns of funds with portfolios acquired during the market's heyday. It is therefore not surprising that four out of five respondents believe that the private equity industry will shrink and some GPs will fail with their next fundraising efforts.

Question 11

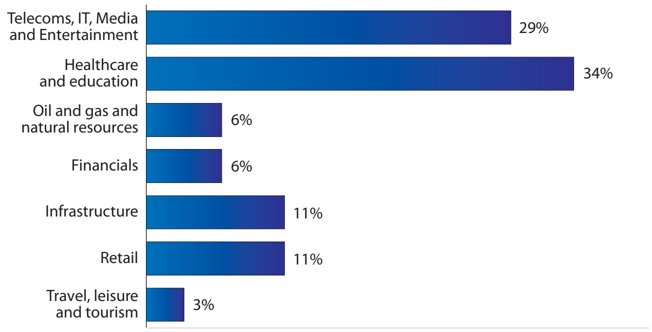


Source: *unquote"*

12. What sectors do you think will be most appealing to private equity buyout funds over the next 1-2 years?

In terms of investment focus, a third of respondents believe the healthcare and education sectors to provide the most appealing investment propositions in the next 24 months. This is hardly surprising given the favourable macro demographics of the highly fragmented Nordic healthcare market and its solid public funding environment. A further 29% regard investments in the historically well performing technology and media sectors as highly attractive, while only one in 10 think retail and infrastructure investments will appeal to buyout funds.

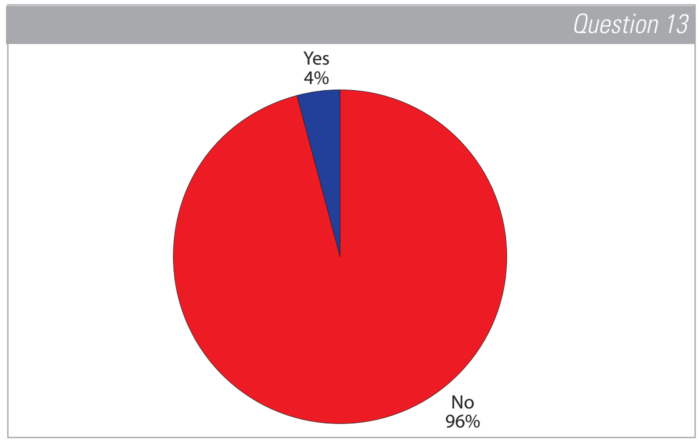
Question 12



Source: *unquote"*

13. Do you plan to invest in distressed debt/distressed companies during the next year?

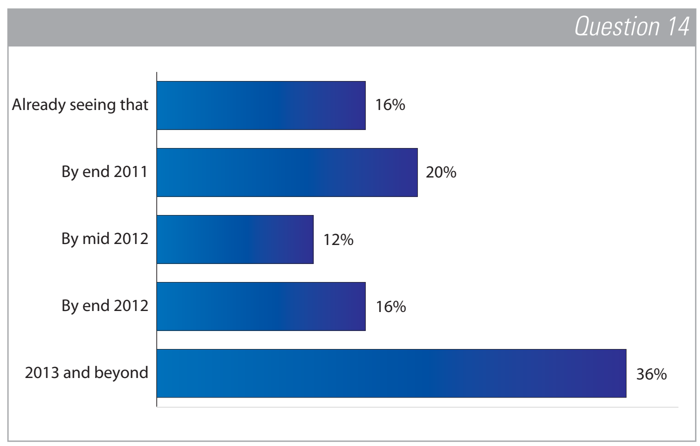
Judging by the overwhelming 96% that do not expect investments in distressed debt or distressed companies over the next 12 months, the time for such deals has clearly past. While the downturn produced distressed investment opportunities in both the secondary debt market and in turnaround/special situation transactions, the subsequent recovery has meant a return to primary deal activity. Additionally, given the strong economic rebound in the Nordics, there remain only few attractive distressed opportunities.



Source: *unquote"*

14. How long before we regularly see large (SEK 5bn+) buyouts in Sweden?

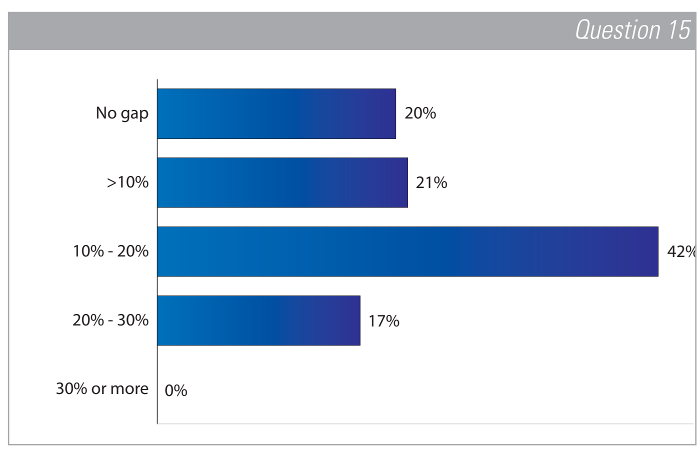
While there is budding optimism in the Swedish market, most respondents did not expect a return to a market where buyouts above SEK 5bn will feature regularly until at least 2013. So far in 2011, a number of buyout transactions in Sweden have taken place at the top end of the market, for example when EQT acquired Dometic Group, a Swedish producer of leisure products for the caravan and motor home industry, for SEK 12bn; or EQT's divestment of Securitas Direct for SEK 21bn to a consortium formed by Bain Capital and Hellman & Friedman.



Source: *unquote"*

15. Is there a price expectation gap between buyers and sellers, if yes how big is the difference?

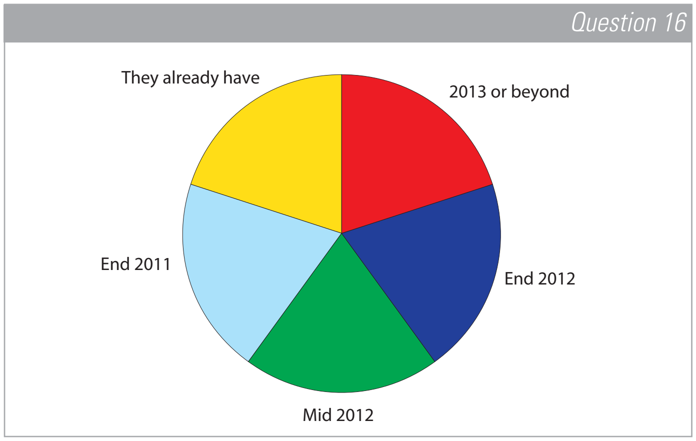
Although the pricing gap that had hampered deal-doing post-crisis has narrowed, it is still experienced by 80% of respondents. 42% saw price expectations between buyers and sellers to be between 10-20%, with an additional 17% putting the difference even higher at between 20-30%. Indicative of improving market conditions, 21% of respondents said the gap is less than 10% with a similar amount believing the gap to have closed.



Source: *unquote"*

16. When do you think price expectations will meet?

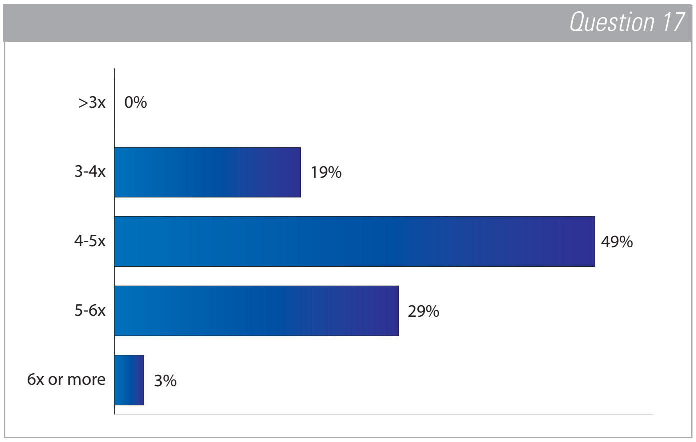
The complexity of predicting future market trends is highlighted by the conflicting opinions of respondents with regards to when they anticipate price expectations to meet. In fact, the same amount of people believed the pricing gap to have already closed or do so by end of this year, through 2012 as well as 2013 or beyond. The inconclusiveness of the answers further illustrates the currently irregular market, characterised by a pronounced range in quality of assets.



Source: *unquote"*

17. What do you anticipate to be the debt/EBITDA ratio for mid-sized to large transactions in the next 12 months?

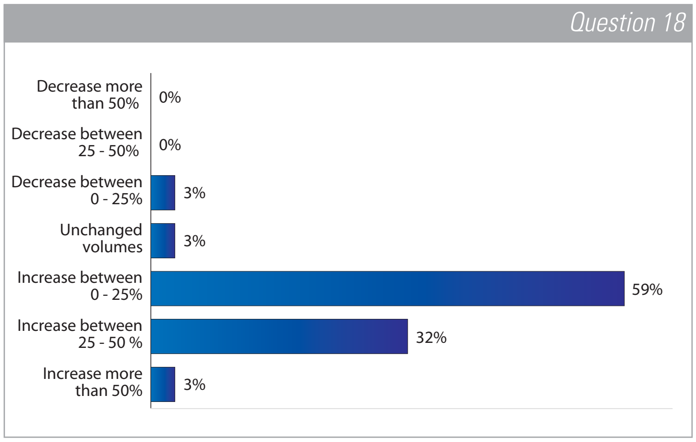
The debt market is open for business and leverage multiples are on the rise with nearly half of respondents anticipating debt multiples for transactions to range between 4-5x over the next year. Notably, a higher proportion of those surveyed put leverage levels at even higher, with 29% foreseeing debt multiples at 5-6x compared to 19% anticipating more moderate levels of 3-4x. Although the Nordic market has already seen debt multiples of above 6x and 7x in large transactions, a return to the overheated levels of the market's heyday is not on the cards, at least not on average for the next 12 months, as only a mere 3% see debt levels to soar to 6x or more.



Source: *unquote"*

18. What is your expectation in terms of volume of private equity buyout transactions over the next 12 months?

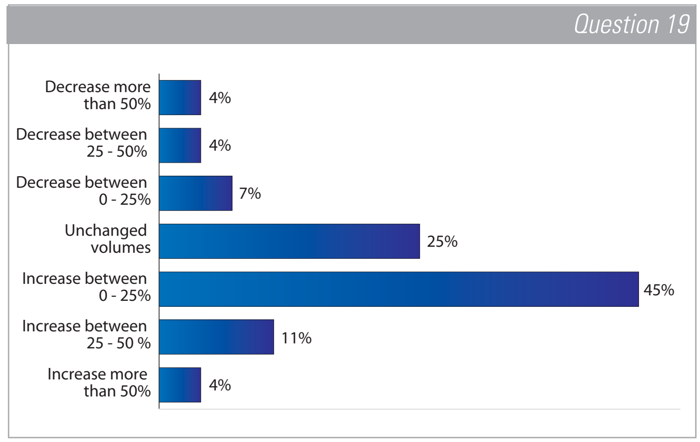
The recovery in the buyout market in terms of activity is set to continue with more than 90% of respondents expecting an increase in the volume of transactions over the next year. That said, the increase is expected to happen gradually, with six out of 10 predicting a volume increase of up to 25% over the next 12 months. A third of respondents was even more bullish and anticipated a further rise in buyout activity by 25-50%.



Source: *unquote"*

19. What is your expectation in terms of volume of venture investments over the next 12 months?

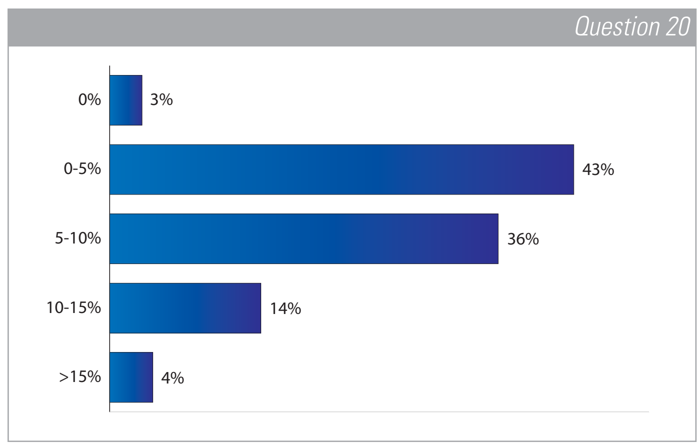
Similar to its buyout cousin, activity in the venture space is also expected to increase in the next year, although not at the same level. While six out of 10 respondents expect a rise in volume of venture investments, almost half anticipate the increase in activity to be just up to 25%. Indeed a quarter of those surveyed foresee venture investments to remain at an unchanged level over the next 12 months, with a further 15% even anticipating a decrease in activity.



Source: *unquote"*

20. How many portfolio companies are in breach of financing covenants or are anticipated to be in the next two years?

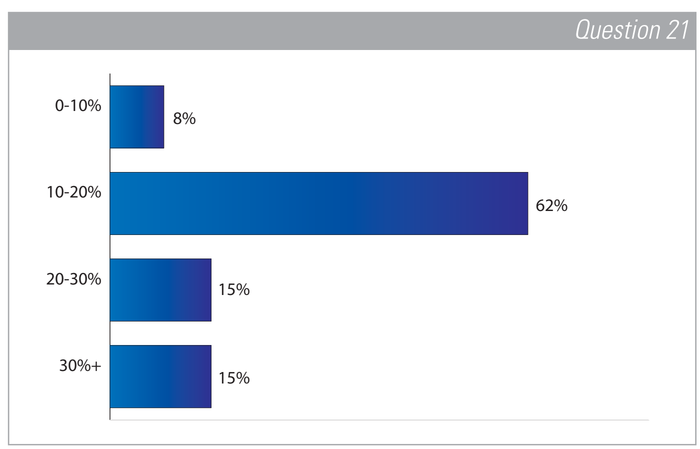
While the market has recovered from the financial crisis, private equity portfolios are not out of the woods yet. As such, eight out of 10 respondents expect that up to 10% of portfolio companies are currently or going to be in breach of financing covenants in the next 24 months. And although the majority of those surveyed anticipate financing covenant breaches at less than 5% of portfolio companies, one in five believes the percentage will be even higher than 10%.



Source: *unquote"*

21. What is the expected IRR for acquisitions/investments made during 2009/2010?

Return expectations for investments made during 2009 and 2010 are optimistic, with 62% of respondents anticipating IRRs in the 10-20% range. Additionally, almost a third of those surveyed expect the asset class to return more than 20% IRR on investments made during the post-crisis years, with 15% even predicting substantial IRRs of 30% and more. Only 8% of respondents anticipate private equity returns to drop to less than 10% IRR, which would be a rather disappointing outcome for the asset class.

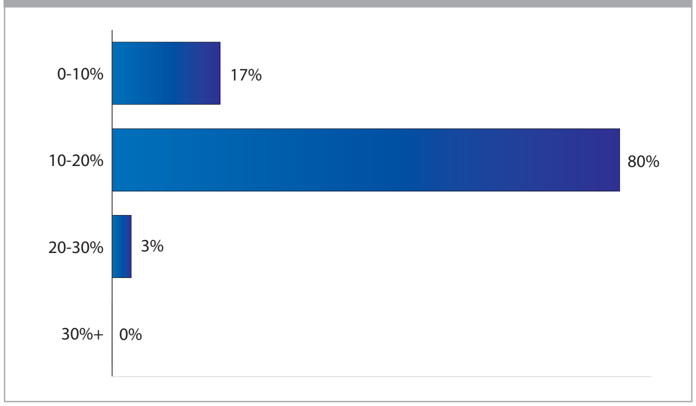


Source: *unquote"*

22. What is the expected IRR for acquisitions/investments made during 2011/2012?

Return expectations for investments made in 2011 and in the coming year are lower than for deals done during the post-crisis years, with eight out of 10 respondents anticipating IRR in the 10-20% range. While the percentage of those expecting IRRs above 20% is negligible, almost one in five respondents predicts returns to drop below the 10% IRR threshold. This would indicate that many believe the post-crisis market to have provided investment opportunities with greater return prospects than the current recovering market.

Question 22

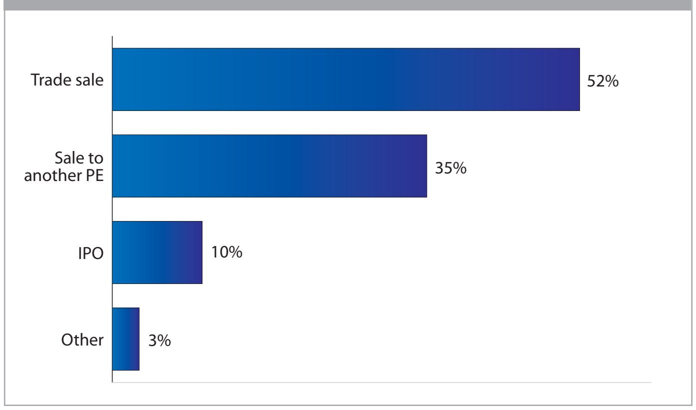


Source: *unquote"*

23. What is/will be the best exit route in 2011 and early 2012?

Half of the respondents see trade sales as the best exit route for private equity investments in the near future. This is hardly surprising given the numerous cash-rich corporates currently looking for acquisitions in the market. In 2011, the Nordics had already witnessed a few blockbuster trade sales including the divestments of Nycomed for €9.6bn and Phadia for €2.47bn. Secondary buyouts are also believed to feature prominently, not at least due to the capital overhang that is still waiting to be drawn down. Therefore a third of respondents regard sales to fellow private equity houses as the best exit route over the next 12 months. Public markets, although open, remain the least favourable option, with only one in 10 seeing IPOs as the best divestment opportunity.

Question 23



Source: *unquote"*

League tables

Top 30 most active private equity houses in the Nordic regions by volume

Buyouts

	2008	2009	2010	Q1 2011	Total
CapMan Group	5	2	4	2	13
Altor Equity Partners	3	3	-	2	8
Herkules Capital	2	2	3	1	8
Accent Equity Partners	2	1	2	2	7
Procuritas	1	1	4	1	7
Norvestor Equity	3	-	3	1	7
EQT Partners	3	-	2	1	6
Segulah	2	1	3	-	6
Litorina	3	1	2	-	6
Nordic Capital	3	1	2	-	6
FSN Capital	2	3	1	-	6
Sentica Partners	4	2	-	-	6
Ratos Holding	-	-	4	1	5
Triton Partners	1	1	3	-	5
Axcel	2	1	2	-	5
Valedo Partners	3	1	1	-	5
HitecVision	1	3	1	-	5
Intera Equity Partners	-	-	4	-	4
Borea Opportunity	3	-	1	-	4
Polaris Private Equity	2	2	-	-	4
Vaaka Partners Ltd (Pohjola)	2	-	-	1	3
Karnell	-	1	2	-	3
AAC Capital Partners	1	1	1	-	3
Via Venture Partners	1	1	1	-	3
Eqvitec Partners	3	-	-	-	3
Priveq Partners	2	1	-	-	3
Reiten & Co Capital Partners	2	1	-	-	3
IK Investment Partners	-	-	2	-	2
Kohlberg Kravis Roberts	-	-	2	-	2
3i	1	-	1	-	2

Source: *unquote"*/Private Equity Insight

Venture

	2008	2009	2010	Q1 2011	Total
Chalmers Innovation	-	13	6	1	20
Industrifonden	7	6	3	2	18
Investinor	-	5	12	1	18
Northzone Ventures	9	5	4	-	18
Stockholm Innovation & Growth	9	4	2	2	17
Vækstfonden	7	3	6	-	16
InnovationsKapital Management	5	6	2	1	14
Finnish Industry Investments	2	4	4	3	13
Sunstone Capital	4	2	3	2	11
Creandum	5	4	2	-	11
Viking Venture	2	3	5	-	10
Seed Capital	2	1	4	2	9
Ratos Holding	2	4	1	2	9
Eqvitec Partners	5	1	2	-	8
Via Venture Partners	2	2	2	1	7
Norinnova Forvaltning	-	3	4	-	7
Nexit Ventures	2	2	3	-	7
Conor Venture Partners	2	3	-	1	6
Proventure	2	1	3	-	6
Teknoinvest	1	4	1	-	6
Scandinavian Life Science Venture	2	3	1	-	6
Första Entreprenörsfonden	-	1	3	1	5
HealthCap Private Equity	-	2	2	1	5
Fouriertransform (FTAB)	-	1	4	-	5
Alliance Venture	1	1	3	-	5
Fjord Invest	2	1	2	-	5
Hafslund Venture	1	2	2	-	5
Intera Equity Partners	1	2	2	-	5
Amadeus Capital Partners	2	2	1	-	5
CapMan Group	3	1	1	-	5

Source: *unquote"*/Private Equity Insight

The most active advisory firms in the Nordic regions by volume

Legal

	2008	2009	2010	Q1 2011	Total
Vinge	24	11	8	2	45
Delphi	10	5	9	1	25
Mannheimer Swartling	10	3	9	1	23
Wiersholm Mellbye & Bech	4	4	6	4	18
Roschier	6	2	7	1	16
Schjodt	8	2	3	2	15
Hannes Snellman	6	3	6	-	15
Lindahl	6	3	6	-	15
White & Case	4	5	4	-	13
Cederquist	2	3	3	2	10
Krogerus	2	1	6	1	10
Castrén & Snellman Attorneys	4	2	3	1	10
Thommessen	7	-	2	-	9
ACCURA	5	-	2	1	8
Steenstrup Stordrange	-	-	8	-	8
Gernandt & Danielsson	4	1	3	-	8
Kromann Reumert	4	3	1	-	8
Baker & McKenzie	1	1	4	1	7
Borenius & Kemppinen	3	-	3	1	7
Selmer	1	2	3	1	7
Torngren Magnell	2	3	2	-	7
Andulf Advokat	6	1	-	-	7
Gorrissen Federspiel Kierkegaard	4	-	1	1	6
BA-HR	4	-	1	1	6
Setterwalls	3	1	2	-	6
Linklaters	2	2	1	-	5
Bird & Bird	-	1	1	2	4
Fondia	2	1	-	1	4
Arntzen deBeche	-	-	4	-	4
DLA Nordic	1	1	2	-	4

Source: *unquote"*/Private Equity Insight

Corporate finance

	2008	2009	2010	Q1 2011	Total
SEB Enskilda	4	6	4	-	14
ABG Sundal Collier	2	3	4	1	10
Pareto Private Equity	5	1	-	-	8
Danske Markets Corporate Finance	1	-	4	1	6
Arctic Securities	-	3	2	1	6
Carnegie Bank	1	1	4	-	6
Nordea Group	2	-	2	1	5
PricewaterhouseCoopers	4	-	1	-	5
Handelsbanken Markets	1	-	2	1	4
First Securities	1	1	2	-	4
Ernst & Young	4	-	-	-	4
Access Partners	1	-	1	1	3
DNB Nor	-	2	-	1	3
Morgan Stanley	-	1	2	-	3
UBS	1	-	2	-	3
KPMG's Private Equity Group	1	1	1	-	3
DC Advisory Partners (Close Brothers Corp Finance)	-	-	2	-	2
Bank of America	1	-	1	-	2
GP Bullhound	1	-	1	-	2
RBC Capital Markets	-	1	1	-	2

Source: *unquote"*/Private Equity Insight

Financial due diligence

	2008	2009	2010	Q1 2011	Total
PricewaterhouseCoopers	22	11	22	5	60
KPMG's Private Equity Group	17	13	17	4	51
Ernst & Young	21	7	15	5	48
Deloitte	15	4	11	3	33
Grant Thornton	7	5	5	1	18

Source: *unquote"*/Private Equity Insight

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