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analysis

nordic survey 2015

Delphi

Cause for cautious optimism

AFTER A somewhat turbulent year in 2013, activity levels in the Nordic private equity market bounced back strongly last year, buoyed by easing fears over regulatory issues and continuing growth in the region's economies. And this improving confidence clearly translated into much stronger dealflow – deal volumes in the region enjoyed a rise of 12.5%, from 184 deals in 2013 to 207 deals in 2014, while deal values increased by an impressive 32% from €9.5bn to €12.6bn.

These improvements were primarily fuelled by an upsurge in Swedish dealflow. The country reported 83 deals worth €3bn in 2014 as compared to 59 deals worth €1.1bn in 2013, representing a 41% increase in aggregate volume and a 151% increase in aggregate value. Besides Sweden, Finland was the only other country to report an increase in deal volume, rising from 35 to 44 deals. Denmark declined from 53 to 47 deals, while Norway dropped from 36 to 33 deals.

However, despite the positive annual statistics and the legal rulings that appeared to dim the spotlight on PE advisers' tax affairs, clear concerns remain in the market and these are echoed in the survey results. Rising asset prices and fierce competition for dealflow – especially at the larger end of the market – as well as reputational concerns, all rank high on the list of practitioners' worries, while a significant cross section of survey respondents feel that changes

to governance and reporting regulations are still likely to drive important change.

Whether or not these issues have directly affected the market into 2015, it is clear the balance of deal-doing has shifted. In the first quarter of the year, Swedish deal volumes declined by a third from their Q4 levels to reach the lowest point in more than three years. Finland, meanwhile, also dropped sharply – from 16 to seven deals. These falls were partially offset by growth in dealflow in both Denmark (11 to 15) and Norway (nine to 10) transactions. Overall, the Nordic region noted a decline of 10 deals from 54 in the fourth quarter of 2014 to 44 in the first quarter of this year.

Still, it is important to note that the first quarter of 2015 was a poor one for many regions across Europe – not least the UK – and in many respects the sentiment coming through from the survey is positive. To begin with, local industry participants appear to be upbeat about their prospects versus those investing elsewhere: more than half of respondents expect Nordic investments to outperform those from the rest of Europe in 2015. Similarly, although there was perhaps hint of more caution in this year's predictions than in previous surveys, more than half of the respondents predict IRRs from deals done this year and next to exceed 16%. So overall, concerns surrounding rising asset prices and 'bubble' conditions are likely to be mitigated by greater confidence in earnings potential and both cheaper and more plentiful leverage. ■



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About Delphi

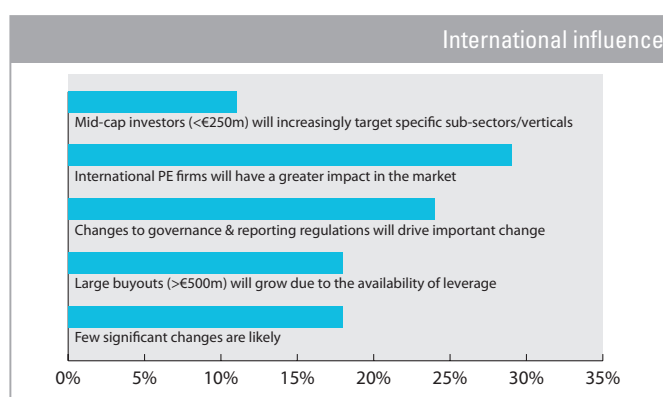
Delphi has expertise in all core areas of commercial law. An important part is the corporate desk, with a large number of domestic and cross-border M&A's and extensive private equity, banking, finance and capital markets practices. Delphi is also well established in high-tech related legal areas such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

STATISTICAL COMMENTARY

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

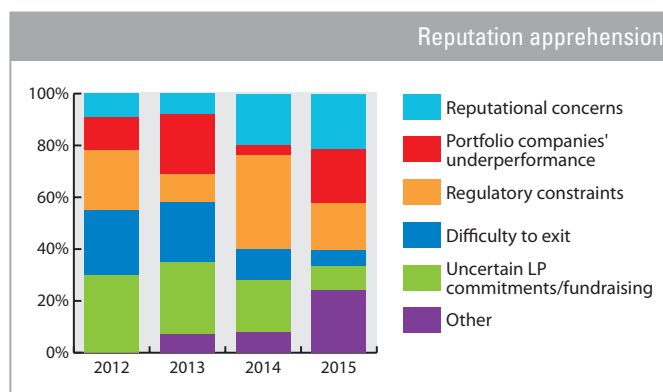
The proportion of respondents expecting to see significant changes over the next 12-24 months in the Nordics has increased markedly, climbing from 65% in 2014 to 82% this year. The nature of changes expected in the region also altered, with the proportion of respondents anticipating changes in governance and reporting increasing six-fold – from 4% in 2014 to 24% this year. The Nordics remains attractive to global investors, as highlighted by the fact 29% of respondents said they expect international private equity firms to make a greater impact in the near future. Further highlighting the rapid improvement in the debt markets, 18% of respondents now expect to see a return of large-cap buyouts thanks to an increase in available leverage, compared with 15% a year ago and 9% in 2013.



Source: unquote " data

What is the most important issue facing Nordic private equity funds?

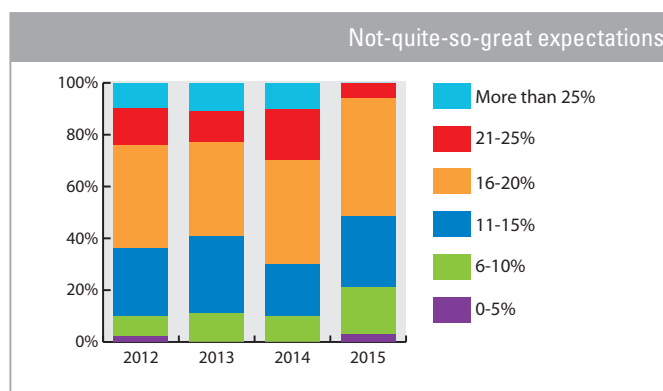
Respondents have clearly indicated that the most pressing issues facing the regional industry have substantially changed over the past 12 months. Last year's survey saw regulatory concerns take centre stage, with 36% of respondents singling them out as the biggest issue faced by the industry. This year's results reveal such concerns have taken a backseat, declining to 18%. On the other hand, the potential risks of rising asset prices are very much on the agenda, with 24% of respondents picking them as the biggest issue (included in "other"). Perhaps, unsurprisingly, given the much-publicised tax rows involving local players in recent years, reputational concerns continue to be a cause for concern – around a fifth of respondents (21%) name the industry's standing as the biggest issue.



Source: unquote " data

What would be a realistic expectation for IRRs on acquisitions/ investments made during 2015/2016?

While still fairly bullish, caution appears to have crept into respondents' forecast of expected returns for investments made over the next couple of years. Around half (52%) of those surveyed expect to see an IRR in excess of 15%, whereas 70% expected similar returns last year. The proportion of respondents predicting returns at the extremes of the spectrum has also changed year-on-year. Those expecting an IRR of less than 10% doubled from 10% in 2014 to 21% this year, while no respondents have predicted returns in excess of 25% in 2015 (compared to 10% last year).

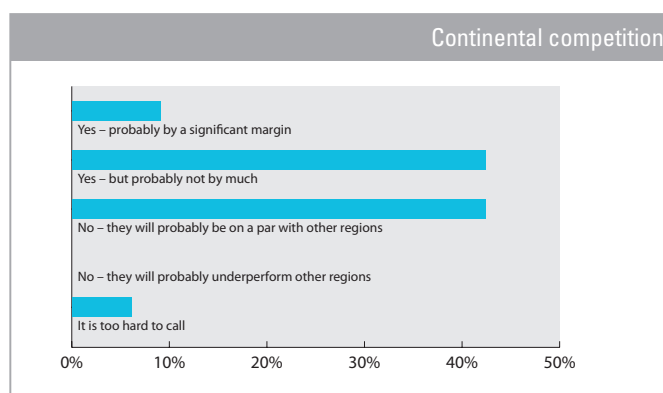


Source: unquote " data

STATISTICAL COMMENTARY

Do you expect Nordic investments to outperform those from the rest of Europe this year?

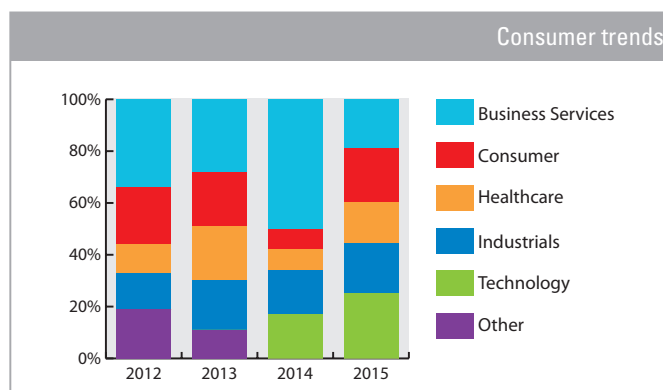
In line with cautious expectations for returns, the comparative advantage the Nordic region has enjoyed over the past few years appears to be slowly shrinking. Around half (52%) of respondents to this year's survey expect Nordic investments to outperform European ones in 2015, compared to 55% in 2014. Moreover, only 9% of respondents stated they expect Scandinavian investments to eclipse European ones by a significant margin.



Source: unquote™ data

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

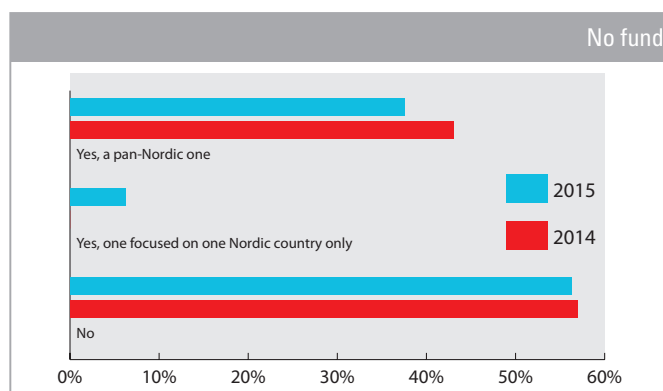
This year's survey reveals important shifts in the priorities of investors in the Nordic region, with the consumer segment, in particular, rapidly gaining favour after a brief drop last year. Around a fifth (21%) of respondents expect this sector to be the most attractive to private equity players in the next 12-24 months, compared with 8% in 2014. Healthcare also registered a similar rise – from 8% to 16%. Appetite for technology has also increased, selected by 25% of respondents, in contrast to 17% in last year's survey and 0% in 2013. However, the most notable shift was witnessed with regards to the business services sector, which was seen as the most promising segment by only 19% of respondents – down from 50% last year.



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?

Industry practitioners' outlook on the region's fundraising environment seems to have changed little: more than half of those questioned (56%) have no plans to raise a vehicle targeting the region in the next 12-24 months, similar to the 57% recorded in the previous survey. Perhaps due to timing – many pan-Nordic funds have closed their funds in recent years – only 38% of respondents intend to raise such a fund, down from 43% last year. Meanwhile, country-specific funds appear to be on the rise; 6% of those surveyed intend to raise such a fund, compared with 0% last year.



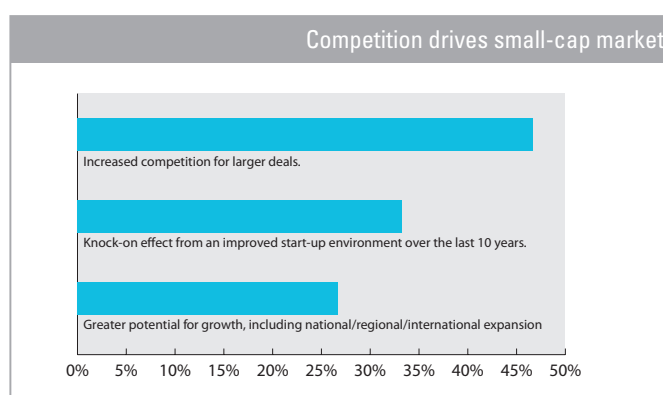
Source: unquote™ data

NORDIC SURVEY

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Nearly all growth in the Nordic PE industry was in the <€100m size category. Which of the following have had the most impact on this?

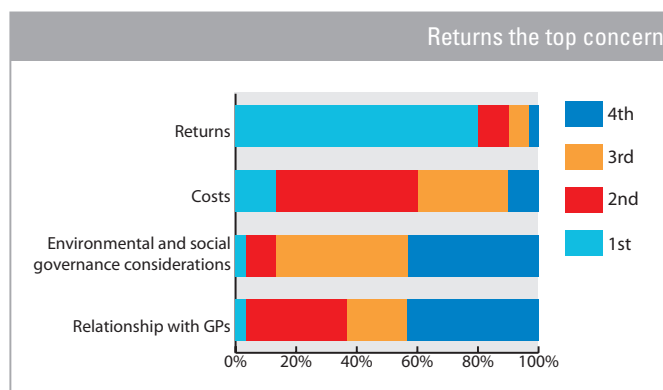
The Nordic region reported a total of 207 private equity deals in 2014, up by 23 deals from the 184 transactions recorded in 2013 (an increase of 14%). This growth can be attributed entirely to small-cap (<€100m) deals, as the value segment noted a rise from 160 to 183 transactions during the year. Additionally, these deals also accounted for 88% of the region's total deal volume in 2014. Almost half (47%) of respondents said this was due to increased competition for larger deals, while a third (33%) believed it was a result of the improved start-up environment in the region over the last decade.



Source: unquote™ data

Rank the following in order of importance for LPs when investing in the next 12-24 months: returns; costs; environmental and social governance considerations; and relationships with GPs

The survey results clearly highlight practitioners' concerns regarding the impact of rising asset prices and 'bubble' conditions on fund returns in the next two years. Four out of five (80%) respondents stated that achieving a satisfactory return will be the most critical factor when investing over the next 12-24 months. On the other hand, only 13% said costs would be the most important consideration.



Source: unquote™ data

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LEAGUE TABLES

Buyouts

	2010	2011	2012	2013	2014	Q1 2015	Total
EQT Partners	2	6	3	4	6		21
Nordic Capital	2		6	2	6	1	17
Accent Equity Partners	2	4		4	4	2	16
CapMan Group	4	3	2		6		15
Norvestor Equity	3	1	4	1	3	1	13
Triton Advisers	4	2	1	3	2		12
Intera Equity Partners	5	3	1		3		12
Altor Equity Partners		5	1	3	2		11
Herkules Capital	3	2	1	2	2	1	11
FSN Capital	1	1	2	2	2	2	10
Procuritas AB	4	3	2		1		10
Sentica Partners	2	5	1		2		10
Polaris Private Equity		2	4	1	2		9
Ratos Holding	4	1	1	2	1		9
Segulah	3	1		2	3		9
Litorina Kapital	2	2	3		1	1	9
Axcel	2	1	2	4			9
Valedo Partners	1	2	2	2		1	8
Maj Invest Equity (LD Invest Equity)	2	1	2	1	1	1	8
Capidea Management	2	1		1	2	1	7
Erhvervsinvest Management	2		1		2	2	7
Odin Equity Partners	1		4	1		1	7
HitecVision	2		2	1	2		7
IK Investment Partners	2		1	1	3		7
Vaaka Partners (Formerly Pohjola)		2	1	1	1	1	6
Via Venture Partners	1	1	1	2	1		6
Priveq Partners		1	4				5
Karnell	2	2	1				5
PEQ	2	1	2				5
Bain Capital Europe		1	1	1	1		4

Early-stage

	2010	2011	2012	2013	2014	Q1 2015	Total
Seed Capital	5	7	5	13	2	2	34
Sunstone Capital	5	3	3	2	4		17
Swedish Industrial Development Fund (Industrifonden)	2	6	3	4	2		17
Almi Invest	5	2	3	6			16
Creandum		2	3	3	6		14
Chalmers Innovation	4		5	1			10
Vækstfonden (Vaekstfonden)	4	1	1	1	1		8
HealthCap Private Equity	2			1	4		7
Lifeline Ventures	1	1	3	1	1		7
Sarsia Seed Management	2	1	1	2			6
Northzone Ventures	1			1	2	1	5
Norinnova Forvaltning	3	1	1				5
Index Ventures		2	1		2		5
London Venture Partners		3			1	1	5
Investinor	2	1		1			4
Open Ocean Capital			2	1	1		4
Novo Nordisk				3	1		4
Finnvera				3	1		4
SamInvest Mitt	2		2				4
SEB Venture Capital		2		1	1		4
Wellington Partners	1		1		1	1	4
Passion Capital Investments			2	1			3
Fouriertransform (FTAB)	1	1	1				3
Balderton Capital			1	1	1		3
Initial Capital		2			1		3
Teknoinvest	2	1					3
Inventure	2				1		3
PROfounders Capital			2		1		3
Atomico Ventures		1	1	1			3
Forbion Capital Partners	1				2		3

Legal

	2010	2011	2012	2013	2014	Q1 2015	Total
Roschier	7	7	8	1	13		36
Vinge	8	11	8	3	3		33
Delphi	10	6	7	2	6		31
Mannheimer Swartling	9	8	4	5		1	27
Wiersholm Mellbye & Bech	5	8	2	2	2		19
Accura	2	3	3	3	4		15
Hannes Snellman	5	3	3	1	2		14
White & Case	3	5	1	1	2	1	13
Schjodt	3	3	2	2	1	1	12
Krogerus	5	3			2		10
Arntzen de Beche	6	4					10
Steenstrup Stordrange	8	1		1			10
Gernandt & Danielsson	3	6	1				10
Castrén & Snellman Attorneys	3	3	1	2			9
Thommessen	2	5			1		8
Kromann Reumert	2	2	1	2	1		8
Cederquist	2	3	1	2			8
Baker & McKenzie	4	1	1		1		7
Selmer	3	1	1		1	1	7
Freshfields Bruckhaus Deringer		1	1	1	4		7
Clifford Chance	2	1	2	1			6
Bird & Bird	1	4	1				6
Setterwalls	3	1			1	1	6
Lindahl	5	1					6
BA-HR	1	2	1		2		6
Gorissen Federspiel	1	2	1	1	1		6
Ashurst	1	2		1		1	5
Borenus (formerly Borenus & Kempainen)	2	1			2		5
Bech-Brunn			1	1	3		5

Corporate finance

	2010	2011	2012	2013	2014	Q1 2015	Total
SEB Enskilda	4	5	6	1		1	17
ABG Sundal Collier	4	4	1	4	1		14
Carnegie Bank	4	2	1	2	2	2	13
PwC UK	1	3	1	3	1		9
Handelsbanken Capital Markets	2	4		1	1	1	9
Nordea Bank	2	2	4				8
KPMG	1	2	1	1	2		7
UBS AG	2	2		1	1		6
Morgan Stanley	2	2	1	1			6
Danske Markets	3			1		1	5
Arctic Securities	2	1	1	1			5
Access Partners	1	1			2		4
DC Advisory Partners	2			2			4
Rothschild				2	2		4
Deutsche Bank		1	1		2		4
FIH Partners			1	2	1		4
Goldman Sachs London		2	1		1		4

Financial due diligence

	2010	2011	2012	2013	2014	Q1 2015	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

League tables are based on new, institutional private equity-backed investments.
They do not cover advice to exits (except in cases where the acquirer is a PE fund).



"Delphi is one of the few firms I recommend to people. It is pragmatic, it looks to solve problems and is available almost 24/7, irrespective of the size of the deal."

Private Equity, Chambers and Partners, 2015,
about Delphi's Private Equity practice

Delphi is amongst the top law firms in Sweden. We provide high quality, commercially focused advice from offices in Stockholm, Göteborg, Malmö, Linköping and Norrköping.

We advise private equity and venture capital houses in buy-out and venture transactions. We also offer advice in all related matters, such as fund formation, LP advice, acquisition finance, management incentives and advice to portfolio companies.

Delphi