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Nordic

Private Equity Index

JANUARY 2012

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■ Welcome to the fourth Nordic unquote™ Private Equity Index published in association with KPMG. This quarterly feature analyses trends in the number, value and financing of deals in the Nordic region (Sweden, Finland, Norway, Denmark and Iceland) and also provides a snapshot of the sentiment among private equity practitioners active in the region.

Activity in the Nordics fell off a cliff at the end of 2011, but year-on-year figures reveal an overall rise in values.

The market sentiment in Q4 reveals that the “Nordic” view on the buyout and debt outlooks is not different from the European average (with an expected fall in large buyouts (>€150m) and a stability of small ones), whereas there is a strong belief in the robust performance of Nordic economies as well as functioning and attractiveness of local private equity markets.

Yours sincerely,

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www.unquote.com

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Q4 2011: Calm in the storm

Nordic PE outlook

The vast uptick in activity in Q2 was not to last. In fact, activity at the end of the year in the Nordics fell off a cliff, with an anaemic €556.14m completed in Q4¹. This is a drop off of more than three quarters from the totals seen in the previous three months – which itself was a shadow of the Q2 figure. Though discouraging, the fall mirrors that seen in the rest of Europe, indicating activity levels are normal in the current backdrop, rather than worrying. And there are some positive elements to note: volumes paint a rosier picture than values, with a drop-off of a little more than a third, to 18 deals completed in the last three months of the year. Also, year-on-year totals reveal an overall rise in values, increasing from €8.58bn in 2010 to €11.1bn last year.

Survey results

The survey results highlight that Nordic deal-doers are on a par with their European counterparts in that they feel large buyouts will decrease in volume (52%). The lower mid-market, on the other hand, is expected to remain stable (55.6%). This is unsurprising, given credit constraints and an inability to reliably forecast companies' activity in the current economic malaise. Across all buyouts, a quarter of respondents expect an increase in activity this year. Of the deals done, a staggering 89% of respondents feel debt multiples will stay the same or decrease from current levels.

The exits market is looking more upbeat, with respondents feeling local and international trade buyers could be the most viable exit routes, with financial sponsors a distant third (around 80% for the two former and 60% for the latter). GPs are not feeling overwhelmed by a capital overhang (only a quarter feel it is a concern), allowing them to pursue a disciplined approach to deal-doing, rather than the more frenetic one witnessed in some countries. This is particularly the case in the UK, where some GPs are prioritising putting money to work over prudence, since their investment periods are fast approaching an end.

Analysis

Overall, the sentiment of Nordic players is no different from the average as far as global financial issues are concerned, but reflects a strong confidence both in the regional macroeconomic outlook and the smooth operation and international attractiveness of their own private equity markets. This is also highlighted in the robust fund-closing and fundraising activity in the region: two buyout funds were closed in Sweden in 2011 (EQT for €4.75bn; Valedo Partners Fund II for €218m) while Energy Ventures IV was closed in Norway for €247m. Also, Priveq Investment Fund IV is now investing in Sweden. Finnish (Open Ocean Fund III, Power Fund III) and Norwegian GPs (Cubera VI, Hitech Vision VI) announced two fundraisings in 2011, alongside one from Denmark (Sunstone Technology Transfer Fund III).

This view is not surprising as macroeconomic performance in Nordic countries has tended to be stronger and more resilient than the European average: Sweden, for instance, boasted a 5.7% growth rate in 2010 and an expected 4.4% for 2011, making it one of a few countries, alongside Germany, Austria, and Macedonia, that are returning to a higher growth pattern than before the crisis². Also, the Nordic financial system has been relatively isolated from Eurozone woes and the private equity market is characterised by both a conservative and cooperative attitude of local banks, GPs, financial and industrial sponsors, and companies.

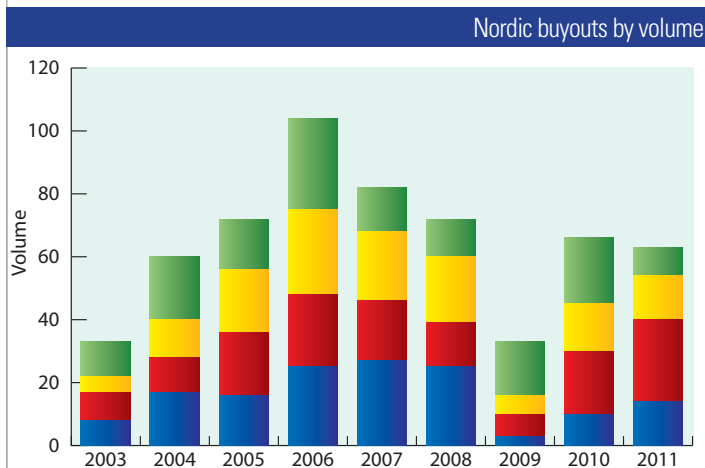
Causes of future concern for Nordic countries might be temporary falls in output in 2012 driven by further financial turmoil and possible asset bubbles, as well as European recessions. Also, the uncertain outlook of surrounding European private equity markets in which Nordic players might have to invest more could be an issue. But it is reasonable to assume that the Nordics will remain appealing to local and international investors and that local economies and private equity markets should continue to be strong long-term performers. ■

¹ All data extracted from *unquote*™ data (Private Equity Insight) – www.privateequityinsight.com

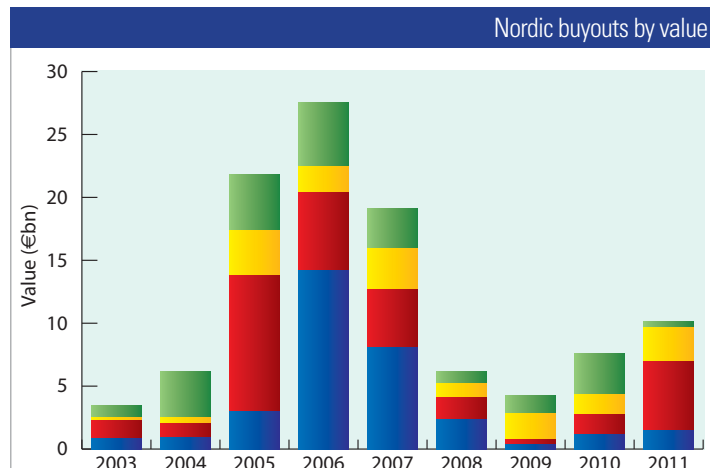
² Comparison of growth patterns during the 2011-12 period and the 2000-2007 period. Source: IMF World Economic outlook 2011.

NORDIC BUYOUTS (VOLUME & VALUE)

Q1 Q2 Q3 Q4

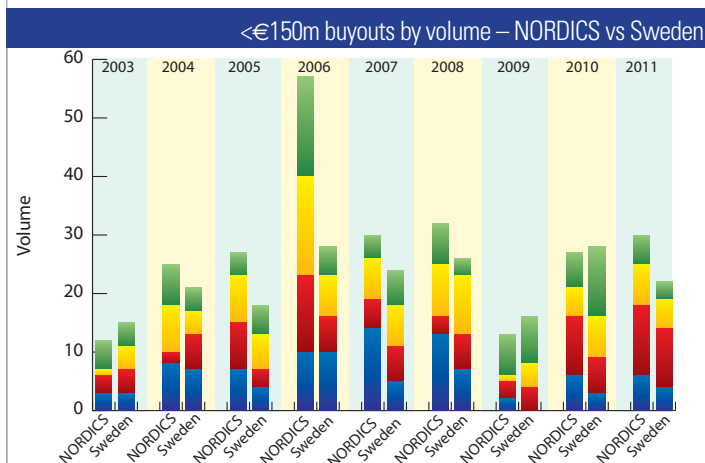


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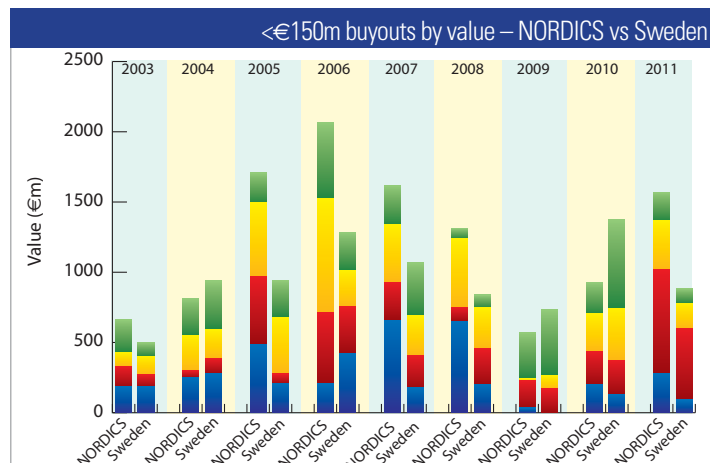


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<€150M BUYOUTS (VOLUME & VALUE)



Source: unquote[®]

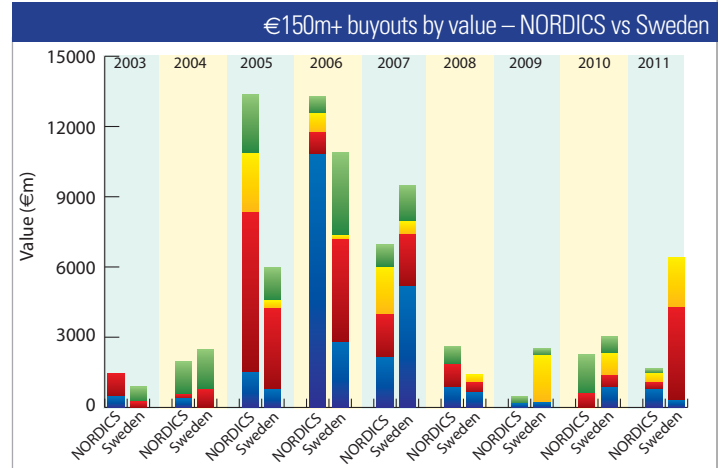
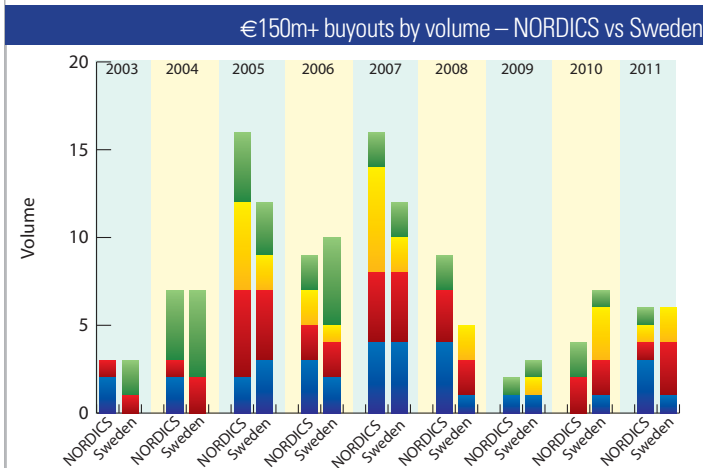


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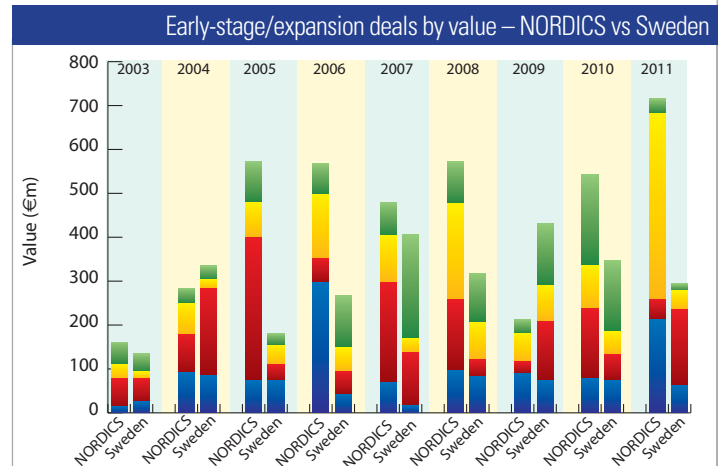
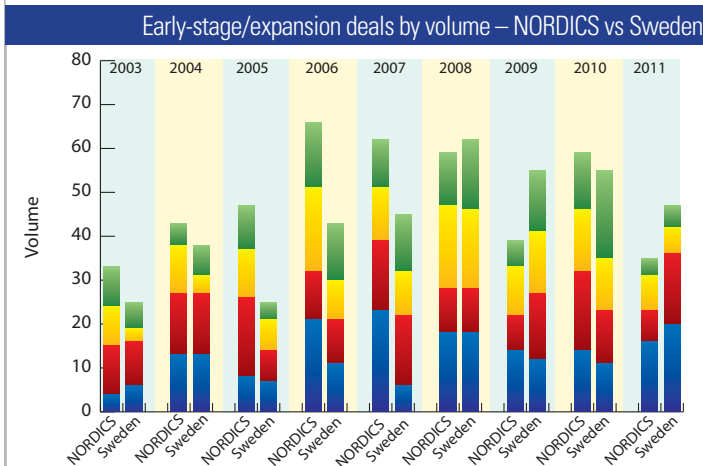
The NORDICS area includes Denmark, Norway and Finland.
Statistics and data for Sweden are recorded separately.

€150M+ BUYOUTS (VOLUME & VALUE)

Q1 Q2 Q3 Q4



EARLY-STAGE/EXPANSION DEALS (VOLUME & VALUE)

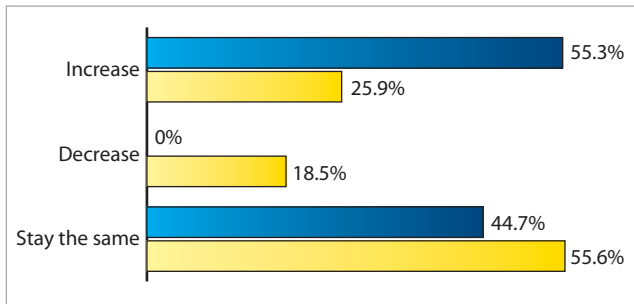


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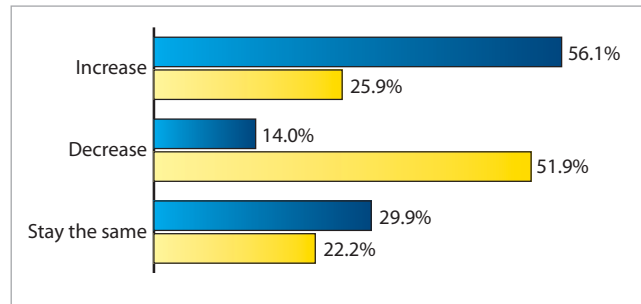
In order to produce these statistics, more than 500 key players in the Nordic private equity and venture capital markets were surveyed.

■ Q4 2011 results
■ Q3 2011 results

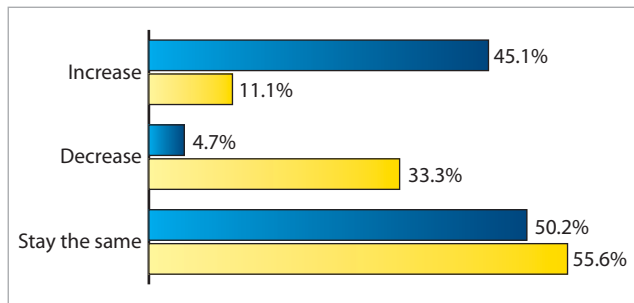
1 Over the next six months do you expect activity levels in the lower mid-market buyout segment (<€150m) to increase, decrease or stay the same?



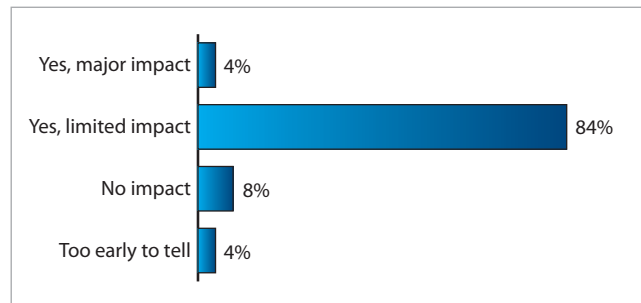
2 Over the next six months do you expect activity levels in the upper mid-market segment (>€150m) to increase, decrease or stay the same?



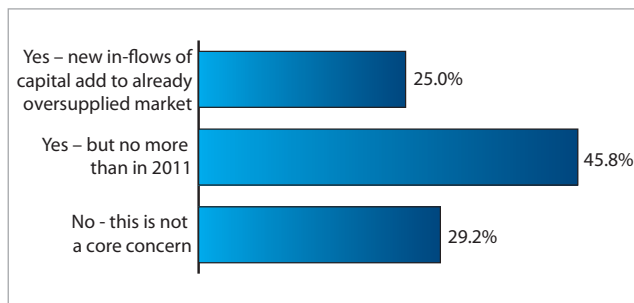
3 Over the next six months, do you expect current debt multiples in deals to increase, decrease or stay the same?



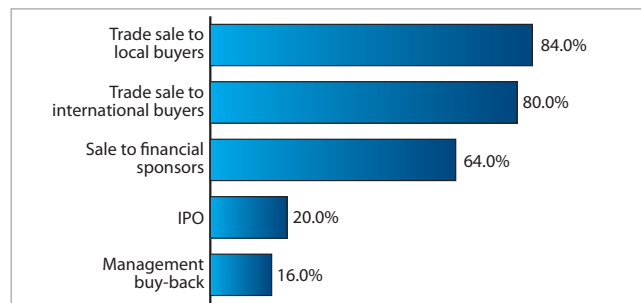
4 Will the severe economic concerns in other European states negatively impact the Nordic economies in 2012?



5 Are the levels of dry powder in the Nordic market causing real concern?



6 What will be the THREE most common routes to exit in the Nordic buyout market in 2012?



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