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analysis

nordic survey 2012

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Delphi is an independent Swedish law firm with expert knowledge in all areas of commercial law. We provide high quality, commercially focused advice from offices in Stockholm, Gothenburg, 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.

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

Northern lights

THOUGH THE Nordic region is a way off the highs seen in the first half of last year, it is up on the second half of 2011. Additionally, strong exits this year imply belief in the region's private equity market is high.

The peak of last year's second quarter – when a staggering €5.7bn of deal value was recorded – gave way to a steep decline, with the last three months of the year recording a relatively paltry €750m. This year's €1.8bn secondary buyout of Ahlsell by CVC Partners from Cinven and GS Capital Partners helped boost numbers to a respectable €3.3bn in the first quarter, while May's €1.4bn of deals was four-times the size of a lacklustre April.

Lucrative exits are being recorded, providing some much-needed distributions to LPs in the lead-up to a long-anticipated fundraising frenzy. The aforementioned Ahlsell exit will have helped Cinven woo its LPs and assisted in its €3bn first close announced just weeks after the sale. Meanwhile, Ratos sold Anticimex to EQT for €330m in April. Nordic Capital's LPs reaped further rewards from Nycomed when a remaining subsidiary Fougera was sold to Switzerland's Novartis for an astonishing \$1.5bn, bringing the total price tag on Nycomed to €10.7bn. This will surely boost interest in the GP's offering for future funds.

Such exits will go a way to increasing expectations for the region, with more than half of respondents to our survey expecting returns of 15% or more for Nordic private equity investments made in 2012/2013. This bodes well for GPs in pre-marketing for fresh vehicles.

This means that sentiment for the region is more upbeat than a year ago, when the buoyant mini-cycle of Q2 2011 had just given way to implosion of global equity markets in the wake of the political unrest in the Middle East and the Japanese earthquake, among other global shocks. From a more general economic point of view, there is belief that the region's partial exclusion from the eurozone may insulate it from the worst of the crisis taking place on its doorstep. This factor may make the region relatively more attractive than other European opportunities for international investors. Despite this, respondents to this survey were more concerned with LP uncertainty and fundraising than any other pressing issues, including regulatory constraints, which topped the list last year. Perhaps the time elapsed has meant deal-doers are more comfortable with the changes.

It is always interesting to see how predictions pan out. As the survey is in its second year, we are able to compare sentiment over the course of a year.



David Aversten,
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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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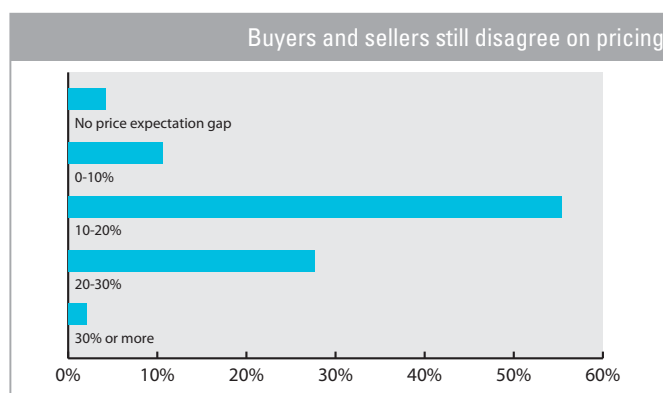
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STATISTICAL COMMENTARY

Do you expect there to be a price expectation gap between buyers and sellers in the Nordics over the next 12 months? If yes, how big will the difference be?

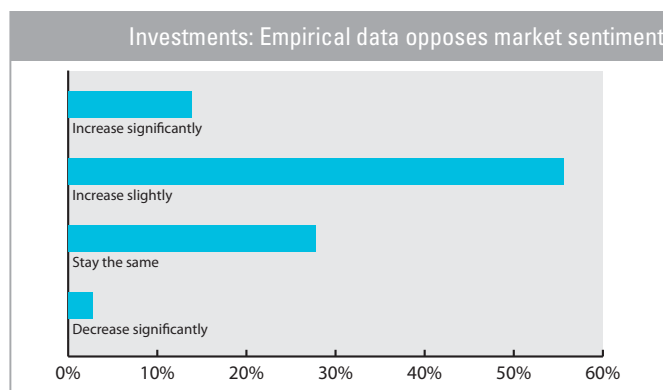
While last year's survey suggested the pricing gap had narrowed – with 20% of respondents seeing no gap at all – this year's survey casts a shadow over the prospect of pricing equality. Indeed, a staggering 96% of respondents believe there will be pricing disparity and while a majority of respondents believe this gap should be limited to 10-20%, some professionals see it reaching 30% or more.



Source: unquote™ data

Over the next 12 months, will volume increase or decrease?

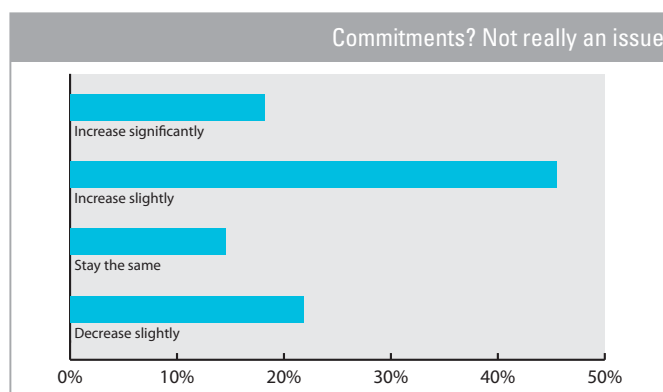
A first glance at the survey's results could have led one to believe the region was on to a very good first quarter in 2012. Denmark and Norway both completed eight investments in Q1. Yet with Finland unable to perform any deals and an unbelievably low level of contracts signed in Sweden – only 6 investments were recorded in the first quarter – these figures are in stark contrast with the perception shown by the respondents who, last month in Stockholm, were optimistic for 2012.



Source: unquote™ data

What do you expect to happen to the level of new commitments in Nordic private equity funds compared to those made in 2011?

Although 63% of respondents foresee an increase of LP commitments this year, uncertainty of LP commitments remains the most challenging issue currently faced by private equity firms. This dichotomy of message sent across the market is surprising, yet if nothing else it showcases the confidence of private equity firms in their fundraising abilities.



Source: unquote™ data

NORDIC SURVEY

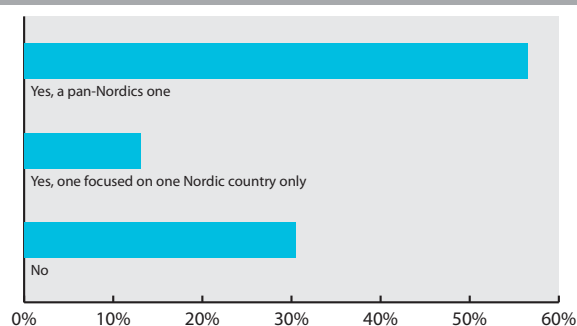
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Do you plan to raise funds focused on the Nordics over the next 12-24 months?

Of the respondents, 70% intend to raise another fund targeting Nordic countries in the next 12-24 months. Although Sweden accounts for the lion's share of the region's activity, Norway, Denmark and Finland have all proved to some degree their capabilities in developing good companies and generating good returns to their investors. According to the *unquote* "European Buyout Review", "Denmark failed to benefit from the slight recovery in 2010, giving the country a meagre share of total private equity investments in Europe." Nonetheless, the recent exit of Dako Denmark A/S proved the country is able to nurture companies that generate distributions for investors.

With an average of 15 deals, Finland's market is small but stable, while Norway clearly still provides suitable divestment opportunities, recording three trade sales in the first five months of 2012. The choice for a pan-Nordic fund is therefore less risky, while still offering a variety of benefits.

Fundraising: Investors to diversify benefits and mitigate risks



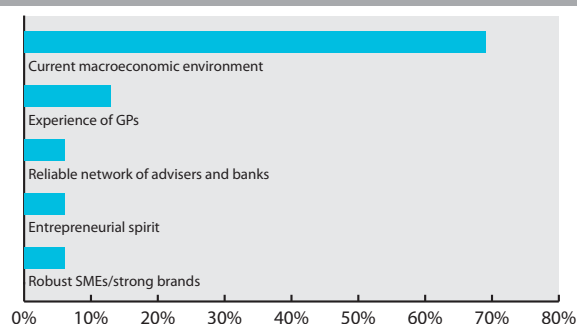
Source: *unquote* "data"

What is the one key differentiating element of the Nordic private equity market in contrast to other European countries?

69% of respondents believe the current macroeconomic conditions are the key differentiating element between the Nordic private equity market and other European countries; a stark difference compared with GP experience (13%).

Confirming this element, figures from the OECD from 2000 to 2011 showed that Sweden – the driver of the region – and Finland, despite being a member of the eurozone, enjoyed an annualised GDP growth rate greater than the OECD average, with Norway not far behind.

Economic situation key difference between Nordics and EU

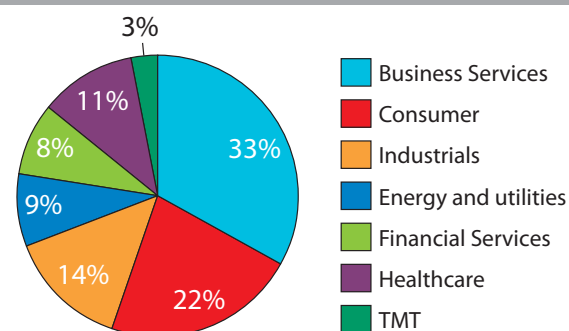


Source: *unquote* "data"

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

Respondents believe business services and consumer sectors will be the most in-demand segments in the region in the next 12-24 months. This represents a shift from 2011, when, according to *unquote* "data", Industrials and TMT sectors accounted for more than 52% of the total number of deals while business services and consumer sectors accounted for a third of the investments made in the region. Healthcare, mentioned by 34% of respondents last year, barely attracted 11% of the vote this year.

Business services and consumer sectors to gain momentum



Source: *unquote* "data"

NORDIC SURVEY

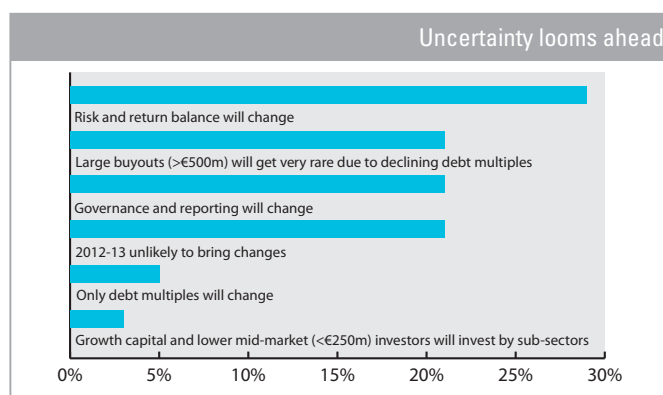
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Do you think the current private equity market environment is likely to change over the next 12-24 months?

Concerns of investors in their current environment seem to focus on the balance of risk/return, governance and a declining level of very large buyouts. The risk/return balance might be explained by concerns over the macroeconomic environment. Southern European debt woes have sent shockwaves throughout the rest of Europe, though the Nordics have been relatively shielded from the crisis.

The Swedish tax authority's plans to re-interpret tax rules so as to classify carried interest payments as income rather than capital gains is causing uncertainty.

While 21% of investors believe large buyouts (>€500m) are on the wane due to declining debt availability, evidence suggests the region is actually getting ready for another exceptional year: with four large buyouts in 2012, the Nordics might prove – as one fifth of investors believe – that 2012/2013 is unlikely to bring any change.



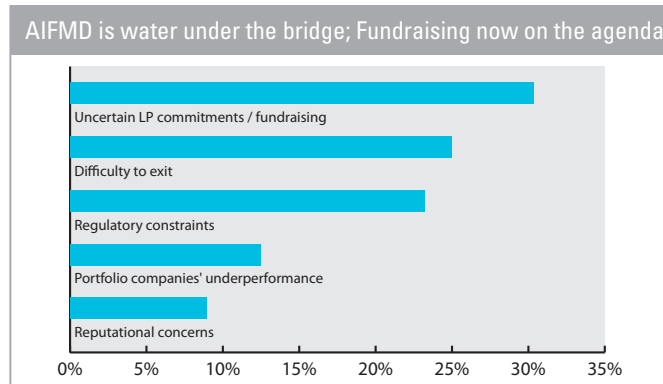
Source: unquote™ data

What is the one biggest issue currently facing private equity funds?

Regulatory constraints, which last year were investors' main concern (63%), dropped this year with just 23% of respondents calling it the main concern this year. While the AIFM Directive was on everybody's agenda last year, today's concern is more perennial: fundraising.

With only seven funds closed in 2011 – an all-time low since 2003 – the region seems to have difficulty convincing investors of the potential the region represents.

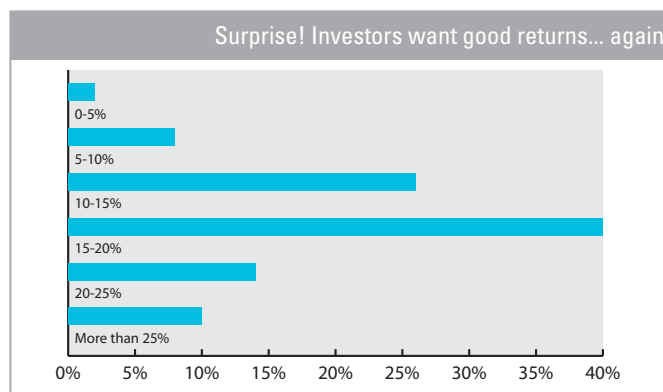
Some respondents of the survey mentioned the underperformance of portfolio companies as a major concern. With portfolio companies unable to meet their targets and GPs experiencing difficulties completing exits – mentioned by a quarter of respondents – the uncertainty surrounding LP commitments should not come as a surprise.



Source: unquote™ data

In your opinion, what is the anticipated IRR for the acquisitions/ investments made during 2012/2013?

Out of Europe's 12 mega-exits (above the €1.4bn mark) over the last year, seven came from the Nordics (Dako Denmark A/S, Ahlsell, Com Hem, Securitas Direct AB, Nycomed/Altana Pharma and Skype) showing that the region is capable of returning substantial money to its investors. With 64% of investors predicting returns of more than 15% for upcoming investments, it appears the region is hungry for more.

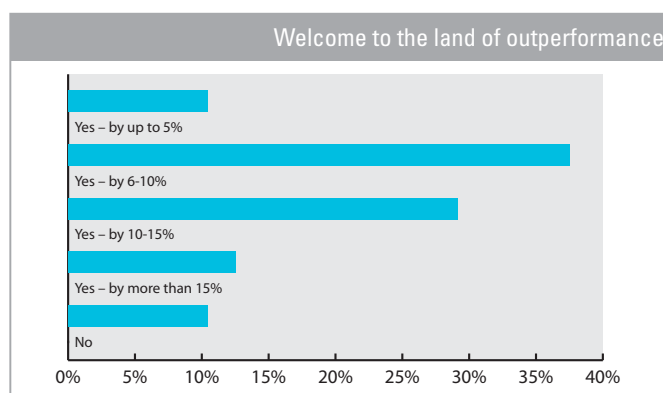


Source: unquote™ data

Do you expect Nordic investments to outperform European ones in 2012?

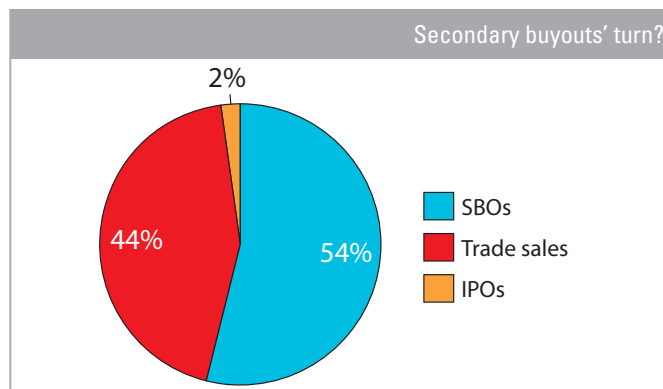
Nine out of ten respondents are confident Nordic investments will outperform other European countries. Indeed, 42% of respondents believe returns will be at least 10% greater in the Nordics.

This view is substantiated by exit multiples from *unquote*™ data, which show Nordic investments from 2008 to 2012 reaching better results compared to other European regions.



Which exit route will be the most popular in the Nordics?

As of May 2012, seven trade sales and seven secondary buyouts occurred in the Nordics. Yet, according to *unquote*™ data, the proportion of trade sales to secondary buyouts was 1.8:1 over the last six years in the region. While responses from last year's survey suggested trade sales were preferable to secondary buyouts (52% vs 35%), this year respondents believe cash rich corporates will face greater competition from private equity firms, with 54% seeing secondary buyouts as the prominent divestment route.



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LEAGUE TABLES

Buyouts

	2008	2009	2010	2011	Q1 2012	Total
Sentica Partners	6	2	2	4		14
CapMan Group	5	2	4	3		14
Altor Equity Partners	3	3		5	1	12
EQT Partners	3	2	2	5		12
Accent Equity Partners	2	1	2	5		10
Intera Equity Partners Oy	2	1	4	3		10
Litorina Kapital	3	1	2	2	1	9
Procuritas AB	1	1	4	3		9
Herkules Capital	2	2	3	2		9
Polaris Private Equity	2	2		2	2	8
Reiten & Co Capital Partners	3	1		2	2	8
Maj Invest Equity (LD Invest Equity)	1	2	2	1	2	8
Nordic Capital	3	1	2		2	8
Norvestor Equity AS	3		3	1	1	8
FSN Capital	2	3	1	1	1	8
Triton Partners	1	1	3	1	1	7
Axcel	2	1	2	1	1	7
Valedo Partners	3	1	1	2		7
Segulah	2	1	3	1		7
Karnell		1	2	2		5
Ratos Holding			4	1		5
Capidea Management	1	1	2	1		5
HitecVision	1	3	1			5
Vaaka Partners (Formerly Pohjola)	2			2		4
AAC Capital Partners	1	1	1	1		4
Via Venture Partners	1	1	1	1		4
Priveq Partners	2	1		1		4
Borea Opportunity	3		1			4
Verdane Capital Partners	2				1	3
Riverside Company	1			2		3

Early-stage

	2008	2009	2010	2011	Q1 2012	Total
Chalmers Innovation		13	3			16
Vækstfonden (Vaekstfonden)	6	3	4	1		14
STING Capital	7	4		2		13
Swedish Industrial Development Fund		3	2	6	1	12
Sunstone Capital A/S	2		4	3		9
Northzone Ventures	6	2				8
Seed Capital	2		4	2		8
Teknoinvest		4	2	1		7
ALMI		2	3			5
Investinor A/S		3	2			5
KTH Seed Capital	3			2		5
Viking Ventures A/S		3	2			5
Healthcap Private Equity		2	2			4
Seed Fund Vera Ltd	4					4
Conor Venture Partners	2			1		3
Hafslund Venture	1	2				3
Norrinova Forvaltning AS			3			3
Provider Venture Partners			2	1		3
Coach & Capital		2				2
Creandum				2		2
Disruptive Capital Finance		2				2
Finnish Industry Investments	2					2
Forsta Entrepreneursfonden			2			2
Index Ventures				2		2
Innovation Norway		2				2
Inventure Oy			2			2
Nexit Ventures		2				2
Nordic Venture Partners	2					2
Proventure	2					2
RWE Venture Capital Funds		2				2

NORDIC SURVEY

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Legal

	2008	2009	2010	2011	Q1 2012	Total
Vinge	23	12	8	11	3	57
Delphi	11	5	12	6	2	36
Mannheimer Swartling	9	3	9	7		28
Roschier	6	2	7	7	1	23
Wiersholm Mellbye & Bech	4	4	5	6		19
Schjodt	8	2	3	3	1	17
White & Case	4	5	4	4		17
Hannes Snellman	6	2	5	2	1	16
Gernandt & Danielsson	4		3	6	1	14
Lindahl	5	3	5			13
Kromann Reumert	4	4		2	1	11
Thommessen	7			4		11
ACCURA	5			3	2	10
Cederquist		3	2	3		8
Krogerus			5	3		8
Steenstrup Stordrange DA		8				8
Castrén & Snellman Attorneys Ltd	4			3		7
Arntzen deBeche			4	2		6
Setterwalls	3		3			6
Andulf Advokat AB	5					5
BAHR	4				1	5
Bird & Bird				4	1	5
Castren & Snellman Attorneys Ltd		2	3			5
Torngren Magnell	2	3				5
Baker & McKenzie			4			4
Gorrissen Federspiel Kierkegaard	4					4
Borenius & Kempainen Ltd	3					3
Bruun & Hieile		2			1	3
Fondia				3		3
Horten		3				3

Corporate finance

	2008	2009	2010	2011	Q1 2012	Total
SEB Enskilda	4	5	4	5	2	20
ABG Sundal Collier	2	2	4	4		12
PricewaterhouseCoopers	4		1	3	1	9
Nordea Group	2	2	1	2	1	8
Carnegie Bank		1	4	2		7
Handelsbanken Markets			2	4		6
Morgan Stanley		1	2	2	1	6
Artic Securities		3	2			5
Goldman Sachs	1	1		2	1	5
Danske Markets Corporate Finance	1		3			4
Ernst & Young - Transaction Advisory Services	4					4
First Securities	1	1	2			4
Pareto Securities	3	1				4
Arctos	2			1		3
GP Bullhound	1		1	1		3
UBS AG			1	2		3
Aventus Corp Fi.				2		2
Bank of America	1		1			2
Barclays Banks		1			1	2
Castlegreen Partners LLP	2					2

Financial due diligence

	2008	2009	2010	2011	Q1 2012	Total
PricewaterhouseCoopers	21	12	22	15	1	71
KPMG's Private Equity Group	17	13	16	14	1	61
Ernst & Young - Transaction Advisory Services	21	7	14	14		56
Deloitte	14	4	12	8	1	39
Grant Thornton UK LLP	7	5	5	5		22

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With data from over 35,000 private equity investments stretching back to 1990, *Private Equity Insight* is firmly established as the longest-running and most comprehensive European database available.

We're not content to rest on our laurels though – which is why *Private Equity Insight* will soon undergo some major changes.

The database will now be called *unquote" data*, and will contain some exciting new features:

- Detailed information on over 4,000 European contacts including deals worked on, email addresses, office locations and contact, strategy and stage focus
- The opportunity to compare deals side-by-side
- State of the art software to help you build charts
- Functionality to export current and realised portfolios of GPs