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NORDIC REPORT 2011

FIFTEENTH EDITION

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Venture: Survival of the fittest?

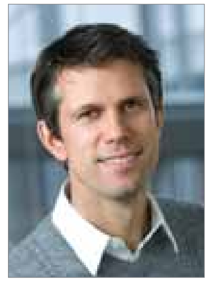
BY VIKTOR LUNDVALL

Nordic venture has been caught in the shadow of a strongly performing buyout industry, as figures reveal underperformance in terms of returns when compared to other regions. However, not all local venture players agree and most suggest the industry has a bright future.

Venture deal activity fell significantly across the globe when the dotcom bubble burst in the early 2000s. The Nordics were no exception: the number of deals completed fell from a peak of 199 in 2000 to just 58 deals in 2003. Activity has stabilised since then, with *unquote"* recording 100-120 deals annually. Even during the recent financial crisis, activity remained steady. Therefore, it would seem that despite its lacking reputation, Nordic venture has remained remarkably resilient.

But it is all about returns. What venture firms and, in particular, their LPs will be more interested in are the returns these deals deliver. Unfortunately, this paints a more sombre picture. "Venture capital as an asset class has been underperforming over the last 10 years. This does not only apply to the Nordic region but Europe as a whole," says Jimmy Fussing Nielsen, managing partner at Sunstone Capital. On average, a typical European venture fund has produced negative returns, across all vintages.

Data generated from *unquote"* (*see graph opposite*) shows average returns on venture deals in the Nordic region. Deals that were completed prior to 2003 generated negative returns on average, likely due to the bursting of the dotcom bubble. Investments that were made in the years directly following this have managed to generate positive returns, albeit at much lower IRRs and multiples compared to the buyout industry. (*A graph showing the returns for buyout deals can be found in the Statistical Commentary on page 10*).



"A few years ago there might have been 50 active investors; today, that number is more like five"

Staffan Helgesson
Creandum

Interestingly, the multiple TVPI fell below the IRR for 2004 and 2005. This suggests that GPs were able to exit their investments quickly in the positive economic climate in the run up to the recent financial crisis. The shining example of a European venture homerun is Skype, which received seed funding in 2003 and additional investment in 2004 from Index and DFJ, only to be sold a year later to eBay for $2.6bn. eBay, interestingly, proved a poorer owner than venture, selling Skype to Silver Lake Partners, venture capital firm Andreessen Horowitz and the Canada Pension Plan Investment Board in a $2bn sale. The venture players cashed in again on the target in May when it was sold to Microsoft for $8.5bn.

The outlook for deals made in 2006* is less comforting, however, as data suggests that returns for these deals are again back in the red. (**A lack of sufficient exits for deals done after 2006 makes it impossible to extract meaningful data for such recent deals*).

Lacking interest

It is clear that venture has not managed to produce the desired returns, so how attractive is this relatively high-risk asset class for LPs? "There is a great disinterest among Nordic LPs to invest in venture," says Pär-Jörgen Pärson, partner at Northzone Ventures. "Many VCs failed miserably during the dotcom crash and burned their investors," he adds. Nielsen agrees that it is difficult to get LPs on board: "The appetite among Nordic LPs [for venture] is very low. Since 2007, annual European VC fundraising has fallen by 75%, which reflects the situation in the Nordics. The problem is that LPs currently do not see venture as an asset class that can generate good returns on average." Furthermore, the fact that the Nordic buyout industry has performed strongly means that LPs are, understandably, more interested in buyout funds.

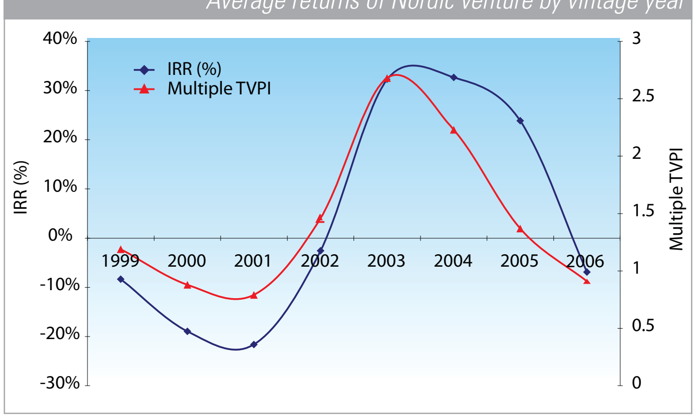
In order to attract investors it is important to show LPs that venture can deliver returns. The problem is that venture investments often require a longer holding period than for buyouts, meaning that it is difficult to show the performance of recent deals. "If you cannot document competitive returns, you will not be able to raise a fund. LPs want proof of performance, not just a promise," says Nielsen. Nevertheless, Nielsen adds that venture exits this year and next will generate strong returns, as will deals done in this vintage, due to the changing landscape of the venture industry.

Creative destruction

Reduced interest from LPs is having a noticeable effect on the industry and has changed the nature of venture in the Nordic region. With less capital available, only the most successful fund managers are able to raise new funds. Last year saw a number of venture firms shut down, for example Olicom and Inventure Capital in Denmark. In April this year, Investor Growth Capital also announced that it would close its European operations. "The number of Nordic-based venture investors has fallen dramatically in the last few years. A few years ago there might have been 50 active investors; today, that number is more like five," says Staffan Helgesson, general partner at Creandum.

Another feature that has become apparent is that larger venture investors are getting larger while the smaller firms are getting smaller. This can be explained in the same way as the reduction in number of VC firms can, in that a disproportionately large amount of money goes to the better-performing fund managers. "Most large venture investors have also been drifting from being early-stage investors to more multi-stage investors," adds Nielsen. One example of this is Via Venture Partners, which announced the buyout of Miroi i-learning AB in November 2010. At the time, the investor said that this type of deal, where a venture firm backs a small buyout, was likely to increase in the future.

Average returns of Nordic venture by vintage year



Source: *unquote*"/Private Equity Insight

The recent changes in the venture environment have inspired further confidence among VCs still active in the region. Recent research by Creandum shows that a third of Europe's billion dollar VC-backed exits in the last five years stem from the Nordic region. Examples of such exits include QlikTech, the aforementioned Skype (twice) and MySQL. This suggests that there are strong underlying drivers in the market. However, another study, which shows that half of investments in an average VC fund represent just 4% of the returns, shows that there is plenty of work still ahead. "Too much of the fund portfolio is currently allocated to bad investments. It is important that investors work to prune these out and find the home runs," says Nielsen.

The fall in the number of active VCs is likely to support an improvement in the performance of the industry. A reduction in competition for deals will decrease valuations and improve the prospects for a successful exit. "Today we have much more time to work on transactions. This means that we get to know the management team and business case better. Also, the terms are generally more investor friendly," says Pärson.

Despite great optimism for the future shown by a large number of Nordic venture investors, there are still hurdles ahead. Upcoming regulatory changes such as the AIFMD may have a significant impact on some venture firms that are less able to absorb the increase in costs associated with its introduction. Solvency II is also set to have a negative impact on fundraising efforts. "The state that the Nordic venture industry is in at the moment may require some form of governmental intervention, such as the creation of a dedicated venture fund-of-funds," says Helgesson. EIF plans to launch a fund-of-funds for the Nordic and Baltic region in an attempt to tackle the difficult fundraising environment for VC firms, which is one step that could alleviate this problem.

Although the venture industry has, on average, returned losses for its investors, those still active in the industry are putting on a brave face. The ongoing transformation of the industry does support their optimism because fewer VC firms will likely lead to more lucrative returns in the future. Indeed, there have already been a number of extremely successful exits in recent years, such as QlikTech and Skype.

Competition for LP commitments is still rife, however, and a strongly performing buyout industry is attracting much of their interest. Nevertheless, as interest rates will inevitably go up, returns associated with leverage will reduce, making venture relatively more attractive. Venture players therefore expect there to be a shift in allocation of capital towards venture in the future, giving new life to this economically important asset class. ■

Nordics ticks the boxes

BY EMANUEL EFTIMIU

LPs love the Nordics. For more than a decade the region has provided consistently strong returns for investors based on its fundamentals of open economies, international businesses and the high integrity of local companies. Add to this the high percentage of private equity houses in the region that have time and time again provided above average returns for their international investors and it is not difficult to see why LPs tend to overweight the Nordics compared to other European regions.

Indeed, the global financial crisis has reinforced this trend as the Nordics were less affected than the rest of Europe. For a start, Nordic countries are less indebted than their European counterparts. In 2010 government gross debt in the Nordics was on average 40% of GDP, compared to an average of around 80% for Western Europe. Furthermore, Nordic economies are seen to have withstood the financial shock much better. Sweden is particularly strong, boasting an impressive 5.5% GDP growth in 2010.

With the Nordics showing further signs of economic improvement, it is not surprising that buyout activity picked up considerably last year, and is continuing to grow in 2011. It is simply a case of all necessary components of an active market being in place, according to Fredrik Strömholm, partner at Altor Equity Partners: "It's a combination of portfolio companies doing better, lenders being back in the market as well as the improving public market valuations, and people are now looking to make the most of such conditions". Jan Johan Kühl, managing partner at Polaris, agrees, adding the improving availability of leverage as another feature, with all major banks having returned to the market.

Rising temperatures

With any significant rise in activity there is the risk of overheating, especially if banks are willing to supply higher multiples. "The debt levels we're actually seeing are a bit worrying, and even staple financing is said to be making the rounds again," states Kühl. Ironically, the crisis might be responsible for the current prospect of an overheating market, according to Strömholm. "In general, Nordic banks have come through the crisis with relatively low credit losses, but nevertheless chose to retrench from lending. Therefore, corporates had to tap the public market, directly issuing bonds instead, and now that the corporate market is doing fairly well, there is less need to borrow from banks. Private equity houses are therefore once again a very important fee- and margin-generator for the incremental growth of banks," he explains.

"In general, Nordic banks have come through the crisis with relatively low credit losses"

Fredrik Strömholm
Altor Equity Partners

While banking appetite is affecting pricing levels, increasing competition is also pushing valuations upwards. "Competition has increased as many funds are in the market looking to do deals. This is because they are running out of their investment periods and are still sitting on substantial amounts of undrawn funds," states Kühl.

On a positive note, this high demand is currently met by a strong supply side. "Many private equity-backed companies are coming to market, in particular in Sweden and Norway. These are mainly companies that have performed fairly well through the down-cycle and have now matured to exit readiness," comments Kai Jordahl, senior partner at CapMan.

On the road again

Fundraising, of course, is the name of the game at the moment. After a two year lull, many houses are already on or expected to hit the fundraising trail this year. EQT is currently looking to raise more than €4bn for its latest buyout vehicle, on a par with its last fund. Segulah, Reiten & Co and

Nordic Capital are likely to send out PPMs later this year or early next.

What may surprise many is that a number of Nordic funds have already successfully raised follow-on funds on the back of 2006 and 2007 vintages – commonly deemed "troublesome" by most. Last year, for example, saw Litorina Kapital close its fourth fund on its hard-cap of SEK 2.5bn – almost double the amount raised for its previous 2007 fund. Other successful fundraisings in 2010 following supposedly "troubled" vintages include Finnish outfit CapMan closing its Buyout Fund IX on €294.6m and Danish private equity house Polaris raising €350m for its third fund.

These vintages have not been impacted as hard as people might have expected a couple of years back, as James Moore, global co-head of the Private Funds Group at UBS, points out: "Many more funds will return capital, post a positive return and hit their preferred return than perhaps we may have initially anticipated," he states. What is more, although these vintages aren't as auspicious as the 2003 and 2004 years, investors are not going to lose all the money they made in previous vintages. "They'll make a positive return, which is most likely to be higher than what they would have got out of public equities," argues Moore.

"Many more funds will return capital, post a positive return and hit their preferred return than perhaps we may have initially anticipated"

James Moore
UBS

Selection of Nordic buyout houses' latest two funds

General partner	Fund name	Country	Closed on/target (m)	Date
Altor Equity Partners	Altor Fund II	Sweden	€1,150	Feb-06
	Altor Fund III		€2,000	Aug-08
Axcel	Axcel III	Denmark	DKK 3,000	Mar-06
	Axcel IV		DKK 3,500	Raising
CapMan	CapMan Buyout VIII	Finland	€440	Jun-06
	CapMan Buyout IX		€295	Jun-10
EQT	EQT V	Sweden	€4,250	Dec-06
	EQT VI		€4,250	Raising
Herkules Capital	Herkules II	Norway	NOK 4,250	Oct-06
	Herkules III		NOK 6,000	Oct-08
Nordic Capital	Nordic Capital Fund VI	Sweden	€1,900	Mar-06
	Nordic Capital Fund VII		€4,300	Nov-08
Polaris Private Equity	Polaris Private Equity II	Denmark	€270	Apr-06
	Polaris Private Equity III		€365	Jun-10
Priveq Investment	Priveq Investment Fund III	Sweden	SEK 1,200	Apr-06
	Priveq Investment Fund IV		SEK 1,800	May-11

Source: *unquote*"/Private Equity Insight

To boot, last year's handful of successful fundraisings benefited from a dearth of funds in the market, meaning that precious LP capital had limited opportunities to be committed. Therefore, a number of smaller Nordic funds with decent track records such as Litorina and HitecVision were able to close fairly quickly.

However, while the Nordic tag attached to the funds is certainly helpful in fundraising, the quality of the investor and its ability to raise money is not entirely based on the vintages or performance of the last fund. Jordahl explains: "Your fundraising success will also depend on the way you managed your portfolio through the down-cycle; the measures you implemented at your portfolio companies and therefore your credibility of managing that portfolio through the crisis and getting it back to a fair value in order to generate a decent return."

The oft-cited "hands-on" investing might evoke cynicism from LPs, but being able to demonstrate the value-add to investments by being proactive is certainly a major factor for a successful fundraising. Polaris Private Equity's third fund is a case in point. "We started fundraising in 2008 in a market when everything went the wrong way, so we weren't able to say 'Look how well our existing portfolio is performing', because it wasn't," recalls Kühl. Consequently, fundraising was tough, but Kühl stresses a key factor to success: "The fact that we were able to show the measures implemented to support our companies through the downturn as well as the progress made between meeting the LP the first time and then a few months later, proved to investors that we not only have a toolbox but can actually also apply it and deliver results," he adds.

This industrial approach is certainly favoured by LPs in today's market environment as questions are being asked of how private equity is going to drive returns in a de-levered world. "At the end of the day, the success of a fundraising sinks or swims with the track record and whether you have got the tools to repeat this going forward," highlights Moore. Judging by their continuing success, Nordic private equity houses seem to have that box clearly ticked. ■

Simon Wakefield
Global head of acquisition finance
SEB
Merchant Banking

Q&A

Q As one of the major debt providers in the region, how have the difficult market conditions over the last 24 months affected your business? How have changes in the market impacted on capital structures you see?

In 2009 there was a major reduction in primary deal activity and our focus was more on supporting existing deals with some follow-on acquisition funding. In contrast we had a reasonably busy 2010 as activity picked up quite quickly in the Nordics at the beginning of the year and just kept on accelerating. Q4 in particular was very busy and this has continued into the first quarter of this year, in which we have closed 10 transactions in Northern Europe.

Notably, in terms of pricing, the Nordic region has moved down ahead of the UK market. The main reason for this is that the Nordic banks are open for business and are generally well capitalised. While you saw full pricing of 500bps for a tranche A in the UK and Nordic regions, and front-end fees of 4-5% in 2009, in the second half of last year the Nordic market dropped to around 400bps while the UK market remained at around 450bps for a tranche A. That discount has widened further depending on the quality of the asset.

Q The volume of dealflow is said to be improving. Is this reflected in rising debt multiples as well?

It is usually very dependant on the asset. Generally speaking, debt multiples have been increasing. Taking healthcare assets as an indicator, total debt multiples have risen from below 5x to 5.5x EBITDA in 2010 and we currently have levels of around 6.5x being suggested on good quality larger healthcare corporates. The application of the high-yield bond market to both senior and subordinated debt and the extraordinary liquidity available in the high-yield bond market is having a significant effect on the leverage in larger transactions.

Q How would you describe the debt availability in the Nordic region for 2011?

Debt availability in the Nordic market is good in that all the Nordic banks are keen on putting on high-yielding assets. The Nordic economies have performed well and the Nordic banks have got good levels of Tier-1 capital. We have also seen the return of international banks in large-cap deals for the first time since 2007 largely driven by the high-yield bond market.

Q When evaluating which deals to support, what are the main criteria that you look for? How, if at all, is this different to two years ago?

We are looking for the same things we always look for when evaluating a business: pricing power, barriers to entry, capital intensity, cost flexibility, non-cyclicality and non-discretionary spending. In general, all the usual criteria you assess a business on for its sustainability and stability of cashflow generation so that you can decide on the appropriate leverage levels. That hasn't changed over the years.

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Four heads, four questions

WITH EMANUEL EFTIMIU

1 There has been talk of LPs not committing to venture. Do you consider Nordic venture funds to be an attractive investment prospect?

Klaus Bjørn Rühne
Partner
ATP PEP

We think interesting technological changes are taking place in the Nordic region, while entrepreneurship is increasing. But the Nordic venture industry is still consolidating after a number of difficult years so we remain cautious and will wait to see which funds come out on top from this consolidation.

Katja Salovaara
Senior portfolio manager Private Equity
Ilmarinen

In the past 10 years the returns have not been there in venture, while at the same time the fees are the highest in the private equity space. We are nursing overall losses of 11% per annum on our small investments in venture, while our main focus, buyouts, is showing since inception returns of 14 % net per annum. In venture the pool of managers that are providing strong returns is simply smaller than in buyouts, so the opportunity set is considerably smaller in venture. That said, on a very selective basis there are always attractive opportunities in venture. The return opportunity has to be compelling nevertheless as the fees have remained very high; so at more moderate return levels the GP gets 100% of the gains whereas the LP bears risk.

Natalia Ilmark
Investment manager Private Equity
Skandia Liv

First of all, Skandia Liv has a global private equity mandate with a view to out-perform the equity markets on our private equity investments. We have a target allocation of 10% to private equity, and are halfway there. Today, 80% is committed to buyout investments and 20% to venture and growth capital investments. Historically, some of our best venture investments can be found in our Nordic portfolio, and we believe Nordic venture to be an attractive investment prospect. We believe there are some innovative teams and good investment opportunities for building the companies of the future with venture capital. Nevertheless, it is evident that returns have not lived up to LP expectations over the last couple of years and Nordic venture has to show good results again to be attractive.

Thomas Wold
Investment director Private Equity
Storebrand

In general, I continue to question the merits of venture capital as a profitable sub-strategy of private equity. Although the over-allocation to venture strategies of the past, both in capital and investment management resources, are seemingly correcting, the process is slow. The Nordic venture capital industry is experiencing a similar downsizing and today seems better matched to the available investment opportunities in the market. In addition, I believe the economic model of the typical venture capital fund is challenging from a limited partner's position. Consequently, this part of the industry may well continue to shrink, as other investment structures emerge to replace it. The simple answer to the question is, therefore, no. Investments in the strategy should be very selective and preferably supported by well argued positions of unfair advantages and/or special opportunities.

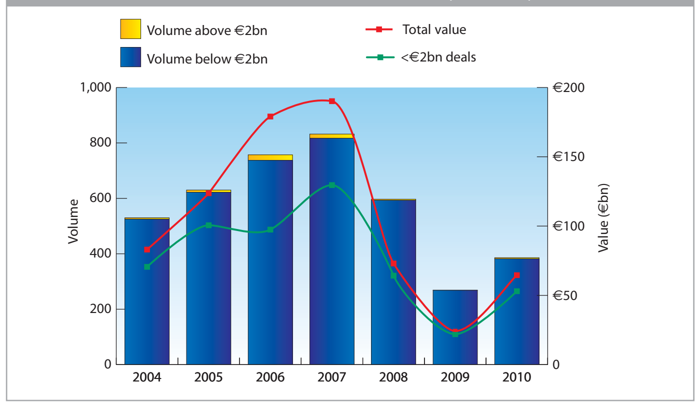
2 What are the three most important criteria when choosing a fund manager in the Nordic region?	3 What are your thoughts on GPs offering incentives to gain commitments, such as early-bird discounts etc?	4 Are you concerned about up-coming regulation such as the AIFMD, Basel III and Solvency II? Will any of these impact your private equity allocation?
First, steady top quartile performance with a strategy that has been consistent over a longer time period is key. Second, a strategy that has elements that other private equity players do not offer. Third, a team with the right mix of experience, focus and drive. And of course terms that are fair to investors and that involve a significant GP commitment.	Early-bird discounts are mainly another indication that the pendulum has swung back towards the LPs. We take such discounts into account but they are not a deciding factor when we make a commitment.	Broadly speaking, Solvency II and Basel III will make it more difficult for Nordic pension funds, insurance companies and banks to commit to private equity. Specifically for ATP and thereby ATP PEP though, Solvency II has no direct impact as ATP is ruled under its own bylaws. That said, ATP will still look to implement Solvency II requirements most likely in 2013. Although it looks like PE will have a relatively high weight in the capital base to be reserved under Solvency II, we do not expect any impact on ATP's appetite to commit to private equity in the medium term. We don't expect the AIFMD to significantly impact Nordic investors in PE, but there remain some uncertainties as the implementation of the directive is still in the works.
For Ilmarinen, the broad criteria are the same in the Nordics as elsewhere; manager skill, alignment of interest, how the manager is evolving to anticipate tomorrow's needs in an increasingly competitive environment, while keeping risk as low as possible. Given the no-brainer status of Nordic PE at the moment – everyone is looking at those same seductive economic statistics so consequently a lot of capital will be raised – it is important to pay particular attention to deal sourcing and value creation capabilities, as well as investment discipline.	There is a long term trend of declining fees on the buyout side, both in terms of absolute levels as well as in a less visible way, such as duration of fees being charged, transaction fee offset percentages, fee break points etc. This is in our opinion necessary, as we are looking for a return premium from private equity over listed equities on a net basis. Early-bird discounts is another feature of this trend of declining fees, but perhaps to little avail as LPs are going to be resource-constrained in this fundraising cycle. On the other hand it is certainly a feasible way to building momentum towards a first close unless it is clear that the fund will be oversubscribed quickly anyway.	As the details of the AIFMD are yet to be hammered out, it is too early to say how costly a burden it will be for the industry or how it will affect our investments. As a statutory pension insurance company we will be to some extent affected by Solvency II, but not with regards to the capital requirements – Finland negotiated an exemption from the EU life insurance regulation for statutory pension insurance companies when joining the EU in 1995. We are looking to grow our investments into private equity both on an absolute basis as well as a share of Ilmarinen's overall portfolio.
Since the late 70s, when we only focused on Swedish investments, we have grown our private equity portfolio internationally and developed an institutionalised investment process that has positioned our private equity portfolio for consistent returns and out-performance of public markets. There are several criteria that are important in our manager selection process, and they differ somewhat depending on the investment. However, we look very closely at team composition, how a long-time manager has handled the changes in the market and their ability to do so in the future; and, of course, track record.	The last few years have been challenging for many GPs trying to raise a new fund. From an LP side, we think it is important that our GPs focus on their core business, and an early-bird discount may be a way for a manager to speed up the fundraising process so that they can continue with their daily work. However, we would never commit capital to a GP only because of a discount fee or similar incentives.	We try to influence regulation that may have an impact on our investment activities and long-term returns at an early stage. Now that the AIFMD is in place, it turns out that it will not have a major impact on our private equity activities. In terms of Solvency II, Skandia Liv has a very high solvency ratio of 173% at 31 March 2011, which gives us freedom to choose the asset mix. Our commitment to private equity is long term and we are continuing our investment activity in the asset class. Today we do not see anything in the proposed regulation that would change our investment plans. That said, we will closely monitor the development of the regulatory environment to ensure that our asset allocation is viable in the long term.
These are not much different from other regions. Specific criteria, emphasis and evaluation work may vary based on the type of opportunity reviewed – a good starting point is proof of concept; ie, an excellent and relevant track record from deploying capital to investments that are consistent with the investment strategy. Second, I value a strategy review, focusing on relevance to the market opportunity and fit with the investment team's overall capabilities. Both tend to change over time as the PE industry matures. In the case of SME buyout/growth managers, I value the capability to manage proprietary and long sourcing processes and establish trust with incumbent owners/potential partners in future investments. Finally, and related to both criteria above, team and corporate culture is important. Nordic GPs are generally open and transparent, with well structured and distributed incentive systems.	My initial reflection is that such incentives are a fair indication that the base fund terms remain too rich and that the adviser enjoys a systematic profit margin (above a reasonable buffer) from management fees alone. I do not believe that these incentives will have a meaningful impact on anyone's investment decision. However, it may have some influence on how LPs will allocate internal resources and as such be helpful in accelerating decision-making in a period when fundraising is very high. My guess is that this will be a short term phenomena that will disappear when GPs' visibility and understanding of their LP base improves.	Periods of changing regulatory framework creates uncertainty, something that inevitably will restrict allocation decisions in the short to medium term. As regulations become clearer, I expect that allocations will be optimised to reflect the new framework. Unlisted equities will draw more regulatory capital than listed equities. Private equity, if properly managed, also has a higher expected return than public equities. Consequently, I expect a fairly stable allocation in the coming years. Lower expected return and risk strategies, such as infrastructure investments, may on the other hand experience cutbacks as these strategies draw proportionately more regulatory capital per unit of expected return.

Statistical commentary

BY EMANUEL EFTIMIU

The bubble caused by the abundance of leverage from 2005-2007 becomes evident once the value of European buyouts excluding €2bn+ transactions is plotted against the overall buyout value. In 2006 and 2007, 3% and 2% of the volume total respectively accounted for 46% and 32% of total deal value. Post-credit crunch, the buyout market contracted substantially in 2008 and 2009, with the latter marking the lowest volume and value buyout totals in more than a decade (268 buyouts worth €24bn). The segment turned a corner in 2010, with a 43% volume increase to 352 deals worth €65bn – more than double 2009's total. Notably, four €2bn+ transactions made up 18% of last year's value total.

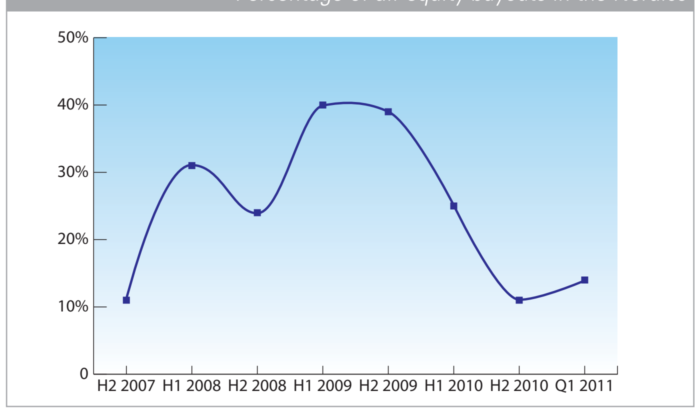
European buyouts 2004-2010



Source: *unquote"*/Private Equity Insight

The improving debt market conditions and the availability of leverage to support buyout transactions throughout 2010 can be traced by looking at the proportion of all-equity financed buyouts. Indeed, the all-equity share is at its lowest level since the onset of the financial crisis in 2007, with only one in ten transactions in the second half of 2010 being structured without acquisition debt. This is in stark contrast to 2009, when bleak macroeconomic conditions, coupled with leverage providers scaling back their lending activities, saw the share of all-equity transactions soar to 40% as buyout houses had to revert to financing transactions with equity-only in order to get deals done.

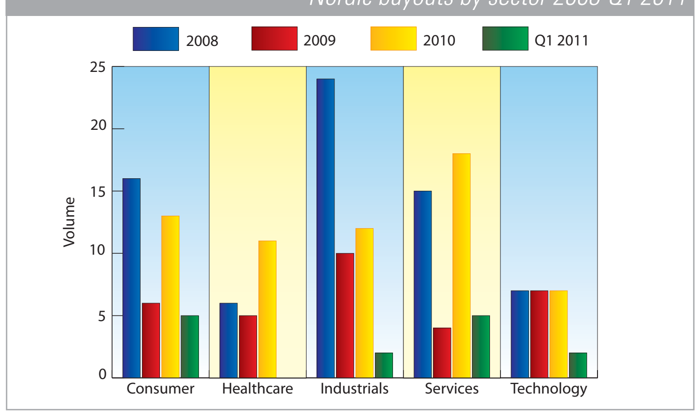
Percentage of all-equity buyouts in the Nordics



Source: *unquote"*/Private Equity Insight

While the industrial sector has historically seen the lion's share of dealflow in the Nordic region, the focus has shifted towards the consumer and services sector following the recession witnessed in 2009. Certainly, the industrial sector remains a major source for buyouts, but the market recovery in 2010 was spearheaded by private equity houses looking for deals in the services, consumer and notably the healthcare sector. This trend has continued into the first quarter of 2011, with the region recording several consumer and services related deals. However, investors are yet to complete a healthcare deal this year following the flurry of transactions in this sector recorded in 2010.

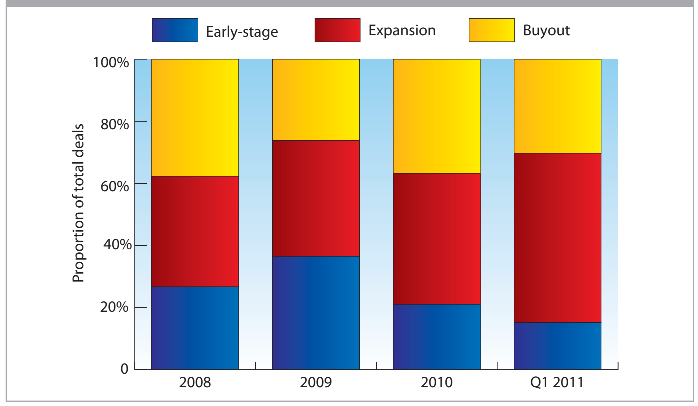
Nordic buyouts by sector 2008-Q1 2011



Source: *unquote"*/Private Equity Insight

The impact of the adverse economic conditions in 2009 on buyout activity – a time characterised by limited debt availability to support buyouts and the pricing mismatch between buyers and sellers – is noticeable when looking at the distribution of private equity deals done in the region among early-stage, expansion and buyout deals. While buyouts have historically accounted for close to 40% of investments in the region, only a quarter of all transactions recorded in 2009 were buyouts. Instead, the expansion category, which includes acquisition finance transactions, dominated dealflow during that year – a trend that has continued throughout 2010 and into the first quarter of 2011. Worryingly, the early-stage segment in the region has seen a continuous drop in nominal dealflow from 51 deals in 2008 to 36 in 2010 and a mere seven in Q1 2011.

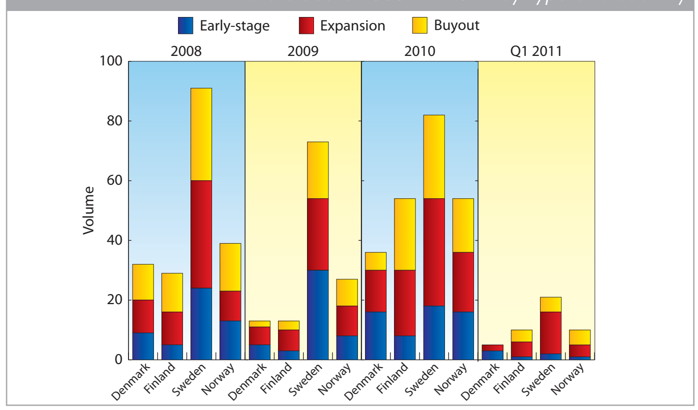
Nordic deals 2008- Q1 2011



Source: *unquote"*/Private Equity Insight

While Sweden is known to be the largest private equity market in the Nordics, it is further notable that overall Swedish deal activity did not fall as dramatically as in some of its fellow regions in 2009. This was mainly down to a rise in early-stage activity that year, which propped up overall deal figures in Sweden. While 2010 saw a recovery throughout the regions, Norway saw a remarkable increase, topping even the 2008 total. Dealflow was mainly driven by expansion transactions, and add-on acquisitions in particular, as private equity houses continued to focus on nurturing their existing portfolio companies, making add-on acquisitions where possible. A similar trend can be observed in Sweden, where a flurry of expansion deals have taken place in the first three months of 2011 – almost half of last year's 36 growth investments.

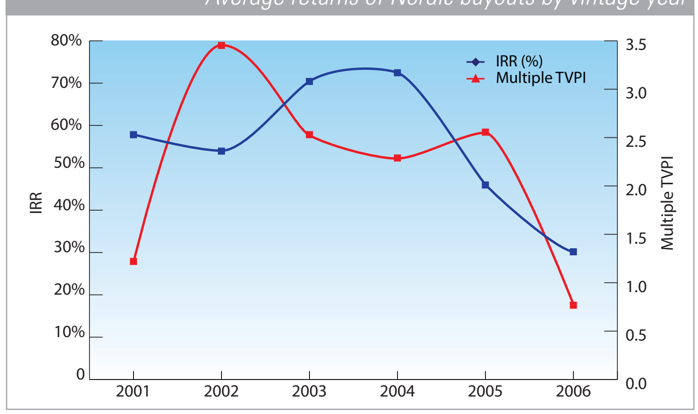
Nordic deals 2008-Q1 2011 by type and country



Source: *unquote"*/Private Equity Insight

Average returns on Nordic buyouts are highest for deals done in the first half of the decade. In particular, returns for 2003 and 2004 vintages topped on average the 3x money multiple with IRR levels hovering around the 55% mark. While the multiple dropped to around 2x for the 2005 vintage, the relatively higher IRR of close to 60% suggests shorter holding periods of portfolio companies, as many private equity houses looked to capitalise on the favourable exit market conditions throughout 2006 and 2007. In contrast, average return figures for deals from the 2006 vintage have slumped to 1.3x and an IRR of 17%, highlighting the challenges buyout houses are facing to achieve stellar returns on assets purchased for optimistic multiples during the market's heyday.

Average returns of Nordic buyouts by vintage year



Source: *unquote"*/Private Equity Insight

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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

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League tables

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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