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## Q&A

Nordic LPs share their views on the eurozone crisis and the impact of impending regulation

## Data commentary

Statistics from *unquote” data* reveal a robust market

# Coming of age

The experience and confidence of local GPs explains recent success stories.

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# NORDIC REPORT

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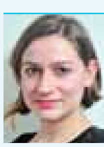

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## Analysis



## Q&As



## Statistical commentary



## League tables




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# The Nordic coming-of-age

Last year's closings of EQT VI (€4.75bn) and HitecVision VI ($1.5bn) were not only the largest ever funds raised in their respective countries, but also signs of international interest in the region – both attracted significant global capital. Sonnie Ehrendal reports

"NORDIC FUNDS have achieved great returns, which naturally has driven international interest," explains Benedicte Schilbred Fasmer, head of business development and capital markets at Norwegian private equity-focused asset manager Argentum, suggesting there are a number of reasons for the increased foreign appetite for the region.

"Furthermore," she continues, "LPs with no previous exposure to Nordic private equity have recently picked up interest in the region. International financial market instability has prompted many investors to look to the Nordic countries as a stable region from a macroeconomic perspective."

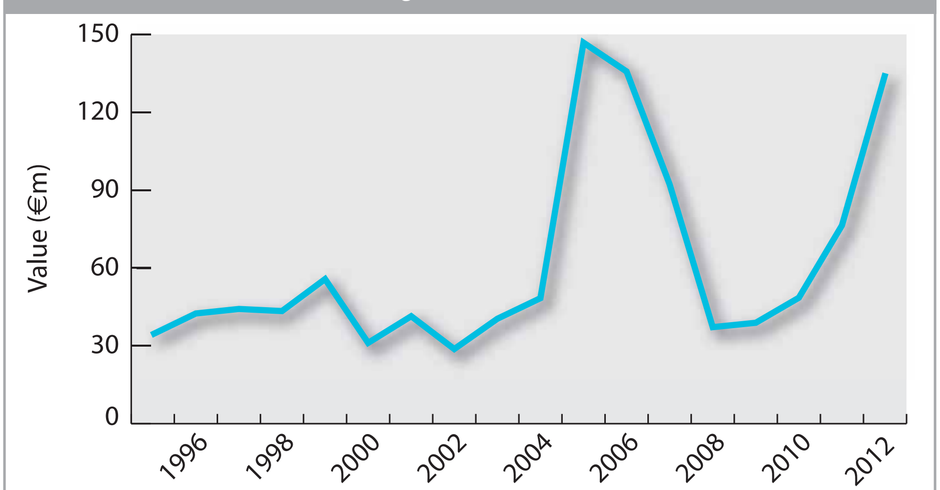
There may, however, be more to it than just economics. One idea points to the increased confidence in the region as a consequence of a maturing industry, where GPs are stepping up their game in the face of higher competition.

"There has been great development in the Nordic private equity industry over a number of years," Schilbred Fasmer says, adding that GPs have grown more professional and internationally oriented. Thus, she argues, funds have become more attractive to international investors.

The last couple of years have indeed seen some world-class exits taking place in the region. Most notably, Nordic Capital exited pharmaceutical company Nycomed to Japanese trade player Takeda in 2011. While the deal was valued at some €9.6bn, it did not include Nycomed's US branch, which was recently sold for a further $1.5bn to Swiss pharmaceutical company Novartis.

Over the last two years, *unquote" data* has registered a total of 12 Nordic exits above the €1bn mark, which surpasses the traditional giants UK and France combined. No doubt, Nordic GPs are getting more advanced.

Average annual deal value (€m) in the Nordics




Source: *unquote" data*

In fact, Nordic competition was a hot topic at the recent SVCA conference in Stockholm. The question – directed at regional veterans EQT, Nordic Capital, and Procuritas – was how to recreate the success of 1997.

That year's aggregate deal value of €2.4bn might seem modest by today's standards, but it corresponded to a 47% increase on 1996, with average deal value steady at €40-41m for both years, according to *unquote" data* (*see graph*). Perhaps more importantly, the year surpassed the value of 1992-1995 inclusive. It may well have been the first time Nordic GPs were able to flex their muscles following the 1992-1994 banking crisis.

*"International financial market instability has prompted many investors to look to the Nordics as a stable region from a macroeconomic perspective"*

**Benedicte Schilbred Fasmer,** Argentum

**Coming of age**

The Nordic buyout industry of the 1990s was still in its infancy; hence, significantly less competitive and with a slightly cruder *modus operandi* than we have in place today.

"The currently robust performance of Nordic private equity, which makes it appear to be a safe haven in Europe, is not the mere result of investors fleeing other European markets affected by financial turmoil. It is the fruition of 20 years of experience and maturing practices," says Christian Sinding, head of equity and partner at EQT.

"LPs are more sophisticated nowadays. There is a stronger focus on management, and it is essential to pick a value-creating team," Mikael Ahlström, founding partner of Procuritas said at the SVCA event.

Nordic Capital partner Joakim Karlsson agreed: "We are looking at more active involvement in portfolio companies. Recruitment can be achieved through industrial networks or in-house, but we focus on a clear feedback loop to improve management."

Management consultants AT Kearney, also present at the event, noted that portfolio holding times had almost doubled in the last decade. Holding periods increasing from between two and three years to five would potentially affect IRR and thus put more demanding LPs at unease.

But the partners were careful to point out that value creation is taking place. "Real value creation derives from operational profit enhancement, and not from the margins of buying low and selling high," Ahlström said, and added that the Nordic industry was good at balancing more levers than purely financial ones, such as debt.

Accentuating the importance of developing management teams, the partners revealed that recruitment strategies have changed. "A number of talented applicants want to work with us, but we are trying to broaden the team," said Karlsson, suggesting that the firm looks to recruit from more diverse backgrounds than a, perhaps more usual, Goldman Sachs or McKinsey pedigree.

**Blood, sweat and tears**

Nordic Capital, which started out as a €55m fund in 1990 (and only broke the €1bn barrier in 2003), divested some €12bn worth of holdings during 2011. No wonder LPs are impressed. EQT, originally founded by Investor AB, AEA and SEB, invested from a €334m fund in 1995. In recent years, it has not only gained independence, but also raised the largest Nordic fund to date, with €4.75bn closed last year.

"It is all down to experience and hard work," says Mounir Guen, chief executive of placement agent MVision, which has worked with a number of veteran Nordic funds. "GPs, bankers, consultants – they have all grown more experienced with private equity over the years, and we are

**Fund closes in the Nordic region, 2008-2011**

| Year | Volume | Total funds raised | Notable fund closes |
|---|---|---|---|
| 2008 | 15 | €9.2bn | Altor Fund III, Herkules Pe Fund III, Hitec Vision V, Nordic Capital VII |
| 2009 | 9 | €926.0m | Procuritas Capital Investors IV, Armada Mezzanine III |
| 2010 | 8 | €2.1bn | Hitec Vision Asset solutions, Cubera V, Polaris PE III, Litorina IV |
| 2011 | 3 | €6.4bn | Energy Ventures IV, EQT VI, Valedo Partners Fund II, Hitec Vision VI |

Source: *unquote" data*

*"They are hard-working, lead by example, and they do not over-promise, but over-deliver!"*

**Mounir Guen,** MVision

looking at the effects now." Moreover, he is careful to point out that local LPs have played a key role in contributing to this development, particularly prior to the influx of international capital.

However, Guen also points to a strong industrious culture in the region. "They are hard-working, lead by example, and they do not over-promise, but over-deliver!" he declares with unconcealed enthusiasm. "A key part of the success is that these guys are performers; they work hard to deliver alpha naturally, and they are never arrogant about it."

He also points to the region as being happily overweight in terms of GPs. "Looking at the sizes of these countries, there are more players here than anywhere else," he explains, and praises the region for its strong industrial heritage coupled with great healthcare and education.

Nonetheless, Argentum reckons €15.3bn sits in the Nordic buyout pipeline. The question remains whether the experienced Nordic GPs will be able to effectively deploy and return that amount of capital.

Ahlström seemed to think that deal flow would not be an immediate concern for a generalist investor. "The Nordics is a big pond – one would be able to fish for some time without looking at Germany and beyond," he said.

But Caspar Callerström, partner at EQT, raised a word of warning, suggesting that the current odds are in favour of either global specialists or local players. GPs that are neither might have a difficult time ahead, he argued. Regardless of the accuracy of that prediction, it stands clear that competition in the Nordics is on the rise.

Argentum's Schilbred Fasmer sees a risk of larger regional fund sizes leading to increasing pressure on returns, valuations, and GPs themselves. "A clear-cut strategy will be an important criterion for success in the future as well. But it will also be important for GPs to deliver, now that they are taking in more capital."

More importantly, in light of the recent international courtship, Fasmer highlights the need to stay in touch with local LPs. "The international capital may well disappear at the next crossroad, which makes it important to maintain a loyal investor base in the Nordic region as well."

Without inferring causality, funds are growing larger and fund managers are getting more experienced. Moreover, Guen points out, a number of talented professionals have historically spun out from veteran buyout houses to create even more players on the local market.

With these developments, the relatively small region runs the risk of becoming too crowded. Hence, the quality of future returns will likely depend on how the specific GPs respond to the challenge. ■

Statistics from *unquote" data* show the Nordic region in a confident mood, recording both impressive exits and fund closes. Olivier Marty investigates

# Nordic region continues steady recovery

OTHER EUROPEAN private equity markets may have grabbed attention in 2011, be it France with its impressive uptick in mid-cap dealflow, or the UK given its lacklustre year-end activity levels. But savvy investors might have been tempted to look north as Nordic activity quietly built upon the steady recovery began in 2009.

Despite recording fewer deals last year than the previous year, Nordic private equity value has continued a steady ascent following its 2009 trough. A sizeable €11.5bn worth of transactions in 2011 trumped the €8.5bn clocked up in 2010, a similar increase to the year before. Much of this is down to the thriving buyout market: not only has it increased from €7.6bn to €10.2bn in 2011, but the proportion of large deals has been on the rise (*see graph, right*).

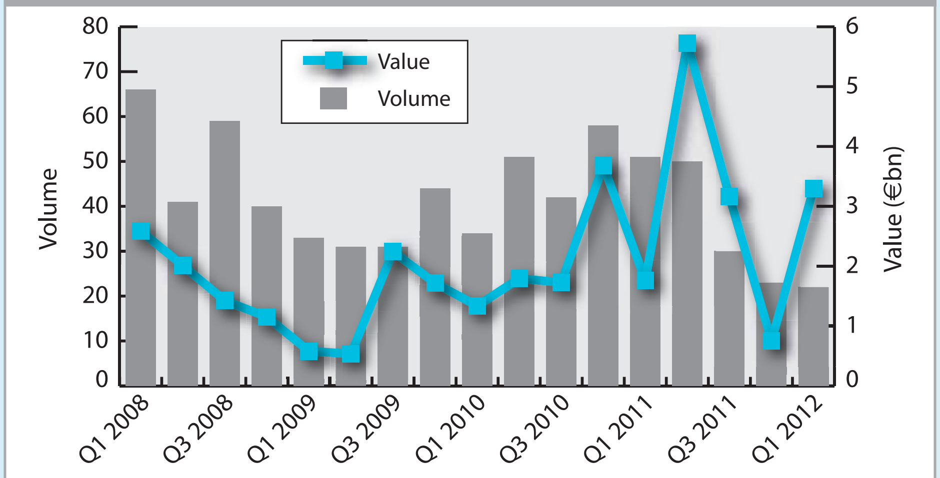
Although the vast majority of buyouts remains in the lower-end bracket (<€150m), the number of sizeable deals increased in 2010 and 2011. Transactions such as Munters AB and Visma ASA revived the upper mid-market (€500m-1bn) segment in 2010, while Dometic (€1.3bn), Securitas Direct AB (€2.3bn), Com Hem (€1.8bn) and Ahlsell (€1.8bn) all helped boost totals and stood out in an otherwise largely subdued European buyout space.

In contrast, the expansion space has remained stable over the last few years, with Saxo Bank being the sole deal of note lately. Early-stage transactions, too, continued their gentle decline. This might be a worrying trend: fewer and fewer venture deals are being done in the Nordics, since innovations which could reap wider, beneficial spill over effects on the economy appear to be falling off the radars of GPs in favour of larger, "easier" wins.

## H2 2011 slump belies Nordic progress

The dramatic fall in Nordic private equity activity in H2 2011 should not detract from the upward trend noted in the region since 2009. Indeed, Q1 2012 has revealed the strongest quarter of the year since the fall of Lehman Brothers. The (€560m) Chr Hansen expansion deal boosted values in February while the Ahlsell (€1.8bn) transaction created the March spike. The latter confirms the attractiveness of large industrial deals in the Nordic region.

Volume and value of Nordic deal activity




Source: *unquote" data*

Sector wise, industrials have remained an important source of deal flow. They have always comprised at least a quarter of all activity, and even reached 50% last year. Many of the very large transactions have happened in Sweden (Ovako, backed by Triton; Securitas AB, backed by Bain; and Ahlsell, backed by CVC) in metals and mining, construction and electronic equipment, but a variety of smaller deals took place in the machinery, energy, transportation, engineering and utilities sectors, with local heavyweight EQT behind many of the sizeable ones.

**Secrets to success**

The robust macroeconomic outlook still explains much of the momentum surrounding Nordic private equity, which appears increasingly safe *vis-à-vis* other European destinations. Although Sweden and Norway show faltering output figures, fundamentals remain strong: their budgets are in surplus, inflation is stable and unemployment levels are declining.

Finland and Denmark, by contrast, have to cope with political struggles associated with wide coalitions or a tough ongoing reform agenda, which is likely to hamper already lower levels of growth. "The main threat to continuing good activity in the Nordic market comes from any deterioration in the macroeconomic environment so, like everyone else, we watch current developments in the sovereign debt market carefully," says Simon Wakefield, global head of acquisition finance at SEB.

But the performance of Nordic private equity is also to be explained by the "experience of GPs and appropriate governance structures, which is open to active ownership," according to Christian Sinding, head of equity and partner

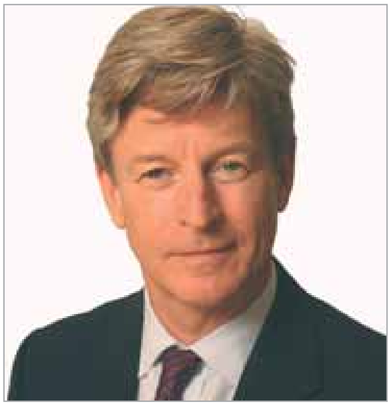
## Steady exit opportunities

The exit environment has been improving markedly too, with the number of divestments doubling since 2009. Unsurprisingly, secondary buyouts and trade sales took the lion's share of this increase with divestments such as Ahlsell (€1.8bn) and Nycomed (€9.6bn). IPOs spiked in 2010 but slumped again in 2011, provoking disappointment among GPs. This year so far has seen a limited number of successful private equity-backed flotations in the Nordics and elsewhere.

**Notable recent exits in the Nordic region**

| Date | Name | Route | Value (m) | Acquirer | Full exit investors |
|---|---|---|---|---|---|
| Feb 2012 | Ahlsell | SBO | €1,800 | CVC Capital Partners | Cinven, Goldman Sachs |
| Apr 2012 | Anticimex | SBO | €328.93 | EQT | Ratos Holding |
| Mar 2011 | Caridianbct | Partial sale | €1,904.41 | Terumo Corporation | EQT Partners, Investor AB |
| Jun 2010 | Chr. Hansen | Flotation | €1,737.70 | n/d | AXA Private Equity, PAI partners |
| Jul 2011 | Com Hem | SBO | €1,856.30 (est) | BC Partners | AXA Private Equity, Carlyle Group, Providence Equity Partners |
| May 2011 | Nycomed Pharma/ Altana Pharma | Trade sale | €9,600 | Takeda Pharmaceutical Company | AlpInvest Partners NV, Blackstone Group, CSFB Private Equity, Nordic Capital |
| Oct 2010 | Pandora | Flotation | €3,668 | n/d | Axcel |
| May 2011 | Phadia (Pharmacia Diagnostics) | Trade sale | €2,470 | Thermo Fisher Scientific Inc | Cinven |
| Aug 2011 | Saxo Bank | Partial sale | €381.25 (est) | TPG Capital | n/d |
| Jun 2011 | Securitas Direct AB | SBO | €2,363.45 | Bain Capital; Hellman & Friedman | EQT Partners |
| May 2011 | Skype | Trade sale | €5,742.47 | Microsoft | Andreessen Horowitz, Silver Lake – London |
| Sep 2010 | Sunrise Communications SA | Partial sale | €2,550 | CVC Capital Partners | n/d |

Source: *unquote" data*



*"The local high-yield market is very much on the rise, and SEB is actively involved in talking to potential issuers and investors"*

**Simon Wakefield,** SEB

at EQT in Oslo. For its part, the health of the buyout market is largely due to the stability of the Nordic financial sector, as illustrated by the easier access to debt of late (*see graph, below*).

In contrast to the wider European situation, debt has been increasingly available for funding Nordic buyouts since 2009. According to Patrick de Muynck, a senior partner at EQT in Stockholm responsible for debt-raising, leverage is "readily available for the mid-market. But it is increasingly combined with high-yield bonds for larger transactions. A trend largely explained by the drying up of the CLO markets and favouring the creation of a pan-Nordic high-yield market is of growing interest to local banks." Wakefield agrees: "The local high-yield market is very much on the rise, and SEB is actively involved in talking to potential issuers and investors."

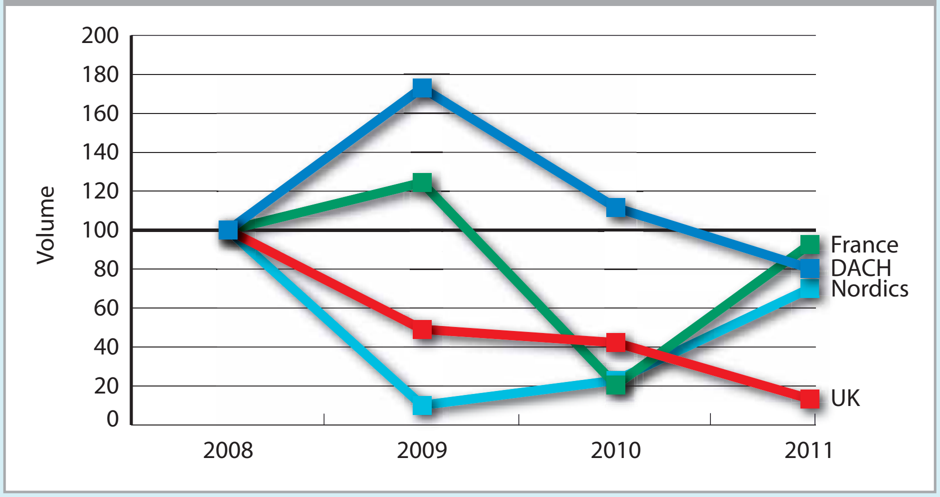
"Banks remain very well capitalised and have no reluctance to lend, especially to good sponsors," adds de Muynck. But refinancing portfolio companies, which has been on the wane since 2008, will be affected by the same lack of CLOs: "The fight for yield will not cause problems for performing companies, but will affect the ones that are borderline. Eventually, refinancing of debt will be a question of price".

Confidence is thus crucial for current and future activity of this predominantly stable region, as is reflected in fundraising activity. For one, though declining in numbers, Nordic GPs have been increasing fundraising totals since 2009, and raised a substantial €5bn in 2011. This trend contrasts with the ups and downs of Germany and the steady decline witnessed in Britain and owes much to the EQT VI, Hitec Vision VI and Polaris PE III fund closes. ■

## Fundraising frenzy

Eight Nordic GPs have been on the fundraising trail since 2011 (Danske PEP V, Hitec Vision VI, Nordic Capital VII, Priveq Investment Fund IV, Sunstone Tech Fund III, Open Ocean Fund III, Power Fund III and Cubera VI), a number comparable to that of larger markets (six in France, eight in UK, 10 in DACH). As Danske Private Equity partner Dan Kjerulf, says: "We did not have a hard time raising and are confident to be reaching our final close in the summer, as expected. Institutions are moving towards fewer managers, favouring a flight to the known."

Fundraising index: Nordic region vs others




Source: *unquote" data*

# Q&A: Conni Jonsson

## Conni Jonsson, managing partner of Nordic investment advisory firm EQT Partners, sees a buoyant Nordic private equity market ahead and explains why EQT is now domiciling new funds in continental Europe

**How does EQT's industrial approach to value creation work?**
Since EQT's first investment was made 17 years ago, an industrial approach has been applied to support the strategic development of the portfolio companies. EQT's focus on long-term, sustainable growth and strategic development often involves industry consolidation through buy-and-build or through a broadening of the geographical scope and product range. A good measure of how this has worked out in practice is that, on average, portfolio companies have increased their sales by 11% and earnings by 17% annually. The number of employees has increased by an average of 12% per year.

EQT also uses the "troika concept" in its governance model. It is made up of the CEO, the chairman of the board of directors and the EQT partner responsible for monitoring the investment. The troika works closely together and conducts regular follow-ups between board meetings, which enable an active and close dialogue with the CEO on a continuous and informal basis in order to assist in preparing matters for the board. This enables the board to focus on what really counts: strategic initiatives, growth and value creation.


Conni Jonsson, EQT

**EQT has one of the most prominent networks of "industrial advisors" in the industry. What role do they play in value creation?**
The "industrial advisors" play a key part in the industrial and strategic development of the companies and hence in value creation. For example, portfolio company chairmen are typically drawn from the network of "industrial advisors".

EQT operates multiple investment strategies and the advisory reflects this with members from a broad range of industries and backgrounds, including the political sphere. Together they hold immense experience from strategic repositioning, international expansion and merger and integration processes.

**You recently declared that EQT will place future funds onshore in Europe. Why?**
We feel it is important to be aligned with the communities where EQT operates. The decision signals a desire to be local and in close cooperation with the local societies.

There will be no change for investors in new funds in terms of taxation and the decision has been very well received by EQT's investors as well as other stakeholders.

**How does the Nordic private equity market look in 2012?**
Our impression is that the Nordic market is faring a lot better than other parts of Europe. Recent market data supports this view and we also see a strong dealflow and good access to debt financing. I would expect EQT to make a handful of deals in the region in the coming 12 months.

The Nordic region's generally healthy government finances, reasonable levels of national debt and relatively strong growth also help maintain activity, as well as a stable and balanced price level. We see plenty of attractive internationally-focused companies with exposure to increased globalisation on the one hand, or to strong local economies, on the other.

**How are the exit opportunities in the Nordic market currently?**
The exit opportunities are better in the Nordics than elsewhere, especially in the mid-market. This is particularly true of secondary transactions, which I think will be more prominent throughout Europe in the next few quarters. A healthy banking sector that has largely escaped the euro crisis also plays an important part. ■

# Q&A: Graeme Gunn

SL Capital partner Graeme Gunn explains why his firm won't be pulling investment out of the eurozone and how the cost of doing business will be directly affected by the AIFMD

**Graeme Gunn**, partner, SL Capital

**The Nordics are considered a relative safe haven for investments in Europe. How has the eurozone crisis impacted your private equity allocation?**
Historically, 90% of our capital is invested in Europe. So no, Europe has not suddenly become an unattractive investment location for us. Of course, there is a level of uncertainty on the macro level, but in general we are geographically agnostic. Historically, we have invested very lightly in Southern Europe, because it is tough to find good fund managers in that region. Private equity needs a liberal labour market, like in Germany, Benelux, the Nordics and the UK. But it also has to do with the risk profile and there is only a certain number of credible managers out there. In the end, we have always been cautious in the markets that are struggling now, so we do not need to worry about changing our business model. Recently, we have been looking a lot at turnaround funds – distressed equity is getting more interesting – and we also co-invest heavily, for example in Poland.

**What are the most important criteria when picking a fund manager in the Nordics and have these factors changed over the past few years?**
No, it hasn't really changed. You find teams from industrial backgrounds with a focus on exporting in the Nordics, which is great. They have financial and industrial expertise; portfolio managers are also very capable. They just have the right supply of talent up there, with global experience and good relationships. Relationships are a key factor, because success is not necessarily measured in financial terms there. It is also about the healthy interaction between the company and the private equity firm. However, there has been a backlash in terms of tax treatment in Sweden.

**The implementation dates for new European regulation are coming closer. How well prepared are you for the new constraints?**
The AIFMD is certainly something we are concerned with. We are outsourcing all our back-office administration and we are very selective with funds. So we are reasonably happy with the AIFMD. Since 1998, we have raised 16 funds-of-funds – we are aware that it will be tougher and more expensive in the future. But for our pension fund clients, we are basically providing the solution, because we are taking the burden from them in dealing with the regulations for them. Still, it will cost more to do business in the future.

*"A mediocre fund does not get more attractive by offering incentives"*

**What do you think of investment incentives, such as early-bird discounts, but also co-investment opportunities? Are incentives more or less important in the current economic climate?**
Incentives can never offset the quality of the managers. But that does not mean we do not take advantage of opportunities. Still, a mediocre fund does not get more attractive by offering incentives. We are looking for the best value and firms that correspond to market norms. In general, SL Capital tries to be a first-close investor and if there are discounts for early commitments that is one thing. But discounts do not make a fund.

Dan Kjerulf, partner at Danske Private Equity, is taking a country-by-country approach to European investments, and is dismissive about upcoming new regulations

# Q&A: Dan Kjerulf

**Dan Kjerulf**, partner, Danske Private Equity

**The Nordics are considered a relative safe haven for investments in Europe. How has the eurozone crisis impacted your private equity allocation?**
It hasn't really affected it, neither in principle nor from any quantitative point of view. We haven't become reluctant to invest in the eurozone as a whole, and do not reject the concept of the eurozone. Rather, we have become more careful on a country-by-country basis, especially in Southern Europe. This is in line with our opportunistic strategy. When considering an investment, we simply apply common sense and our usual due diligence.

**What are the most important criteria when picking a fund manager in the Nordics and have these factors changed over the past few years?**
Our mantra has long been – and will continue to be – people, strategy and the investee fund's investment process. As we invest in small and mid-market buyout funds in Europe and North America (typically fund sizes €150-750m), we are more dependent than others on the quality of individuals managing the funds we invest in. For investment processes, we look at the core elements but also at any updates, in line with market moves. For example, skills in obtaining bank financing and in conducting exits to financial buyers as well as real operational experience from market crises are essential in the current market, even in the smaller fund manager organisations.

> *"We are not the ones that should be concerned by regulation. Rather, we are expected to set the standards for the industry"*

**The implementation dates for new European regulation are coming closer. How well prepared are you for the new constraints?**
We are not the ones that should be concerned by regulation. Rather, we are expected to set the standards for the industry. However, we do have a very trustworthy and constant relationship with the regulatory teams at Danske Bank, our parent company, and a leading diversified financial services provider in Northern Europe. And we are not that concerned about Danish insurance companies satisfying Solvency II standards, as they have been implementing their own quantitative impact studies for a number of years, managed by the Danish financial services authority. The situation of other Nordic insurance companies is unlikely to be very different, and we welcome the cooperation with Nordic financial authorities.

**What do you think of investment incentives, such as early-bird discounts, but also co-investment opportunities? Are incentives more or less important in the current economic climate?**
We are very sensitive to early-bird discounts because we are often a cornerstone investor taking as much as 15-20% of commitments and want to be in the first closes. Indeed, we use our position to secure our managers being able to play to their strengths and avoid losses, while maintaining a strong alignment of interest. As for co-investments, we are actively seeking some: they usually reduce our portfolio costs; enable us to get our money to work faster, in line with many of our own LPs' wishes; and deepen our relationship with GPs. ■

# Q&A: Klaus Rühne

## Klaus Rühne, partner at ATP PEP, believes its European allocations will be secure, and is looking for more opportunites on the continent and in North America

**Klaus Rühne**, partner, ATP PEP

**The Nordics are considered a relative safe haven for investments in Europe. How has the eurozone crisis impacted your private equity allocation?**
The crisis in the eurozone does not have a great impact on our allocation. Our latest €1bn ATP PEP IV K/S fund, established in 2010, is largely committed with a global mandate in a number of buyout and venture funds. We certainly feel the eurozone would have an impact on the fundraising climate, however, and accordingly lead to fewer commitments.

**What are the most important criteria when picking a fund manager in the Nordics and have these factors changed over the past few years?**
ATP favours the sector knowledge and industrial network of GPs. We also pay much attention to the stability of the partnership. These criteria have not changed. In the buyout segment, ATP PEP focuses particularly on funds with a style or sector expertise, often in the mid-market segment in North America; as for Europe, the approach is much broader. In both regions, ATP PEP seeks GPs with strong experience, history and performance. For the venture capital segment, ATP PEP is looking for partnerships with a proven ability to create new companies and make them grow to profitability. The key theme is value creation through investing in technologies with a competitive edge and forming the right management teams.

In North America, as well as in Europe, ATP PEP focuses on venture capital funds with technical expertise, performance and history.

*"[Discounts] have no specific impact on our investment decision"*

**The implementation dates for new European regulation are coming closer. How well prepared are you for the new constraints?**
Private Equity Advisors K/S is responsible for the execution of ATP's private equity investment programmes. ATP is a hybrid financial institution having both insurance and pension fund characteristics, it is governed by its own bylaws and neither subject to the upcoming EU occupational pension funds directive nor to Solvency II. It does want to comply under Solvency II on a voluntary basis, however, and has started implementing most of the necessary measures. But regulation is not a direct concern for us: our prime objective is to deliver the best performance relative to other asset classes. ATP PEP funds have been ranked within Preqin's consistent top quartile lists twice in a row.

**What do you think of investment incentives, such as early-bird discounts, but also co-investment opportunities? Are incentives more or less important in the current economic climate?**
Discounts do matter, especially when the market is adverse. And when we do get discounts, we attach importance to preference rights. But on the whole, they have no specific impact on our investment decision. ATP PEP makes co-investments in deals led by private equity funds in which we are already a limited partner. The typical size of a co-investment is €5-25m. Co-investments have many advantages. Getting returns while not paying fees and thus having a smoother J-curve is one of them. Another is that we can see how the manager works, both in the due diligence phase and after, in the day-to-day management.

Skandia head of VC and infrastructure investments Roger Johanson stresses private equity is a long-term investment unaffected by short-term market moves

# Q&A: Roger Johanson

**Roger Johanson**, head of VC and infrastructure investments, Skandia Life Insurance

**The Nordics are considered a relative safe haven for investments in Europe. How has the eurozone crisis impacted your private equity allocation?**
The eurozone crisis will have no immediate impact on our allocation as we have a 10% mandate of total assets to be invested in private equity on a pluriannual basis ending in 2013. As of now, only 6.5% is invested. On the buyout side, the exposure to the eurozone is approximately 50% of the portfolio, while in venture it is only 30%. Private equity is a long-term investment that isn't affected by short-term market moves, but private equity is certainly correlated to financial markets and banks: lending and IPOs reveal adverse trends at the moment, and we must remain vigilant.

*"Track record is less of a good indicator than before as markets have changed so dramatically"*

**What are the most important criteria when picking a fund manager in the Nordics and have these factors changed over the past few years?**
These criteria have not changed, they remain the quality of the team as well as the track record. For one, the investment team must be competent, but we also look at how it has weathered the economic downturn, be it in terms of communications with LPs, of compliance, or financing schemes of portfolio companies. For venture capital investments, we like to see leading GPs, in opposition to followers. The track record is less of a good indicator than before as markets have changed so dramatically. We must not rely on this too much.

**The implementation dates for new European regulation are coming closer. How well prepared are you for the new constraints?**
Skandia is very well prepared for Solvency II. Qualified internal resources have been actively preparing for it since the directive was proposed and started developing an internal model then. Whether or not Solvency II will have an adverse impact on private equity allocation also depends on the broader financial and macroeconomic environment, rather than on the package itself. LPs who have a wide experience of PE investments are barely affected. It is likely that experienced LPs will chase the best GPs. 2012 might very well become a record year for Skandia when it comes to commitments.

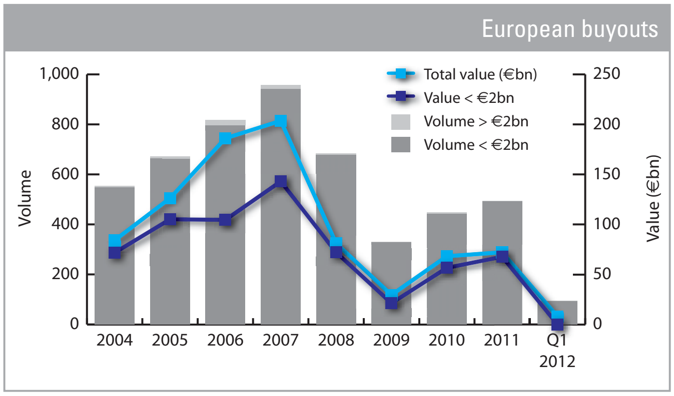
**What do you think of investment incentives, such as early-bird discounts, but also co-investment opportunities? Are incentives more or less important in the current economic climate?**
Incentives are important, but should not hide the key parameters when selecting a fund and managing the GP/LP relationship. Nonetheless, they do make sense when the LP is a leading investor, as Skandia often is. In these cases, we prefer to have a discount on management fees or a share of the carry. Co-investments are different as they are very difficult to handle and may divert an LP from its traditional asset management strategy. Incentives are not the criteria responsible for the greater interaction between GPs and LPs. ■

# STATISTICAL COMMENTARY

By Olivier Marty

**European buyouts might be subdued in 2012**

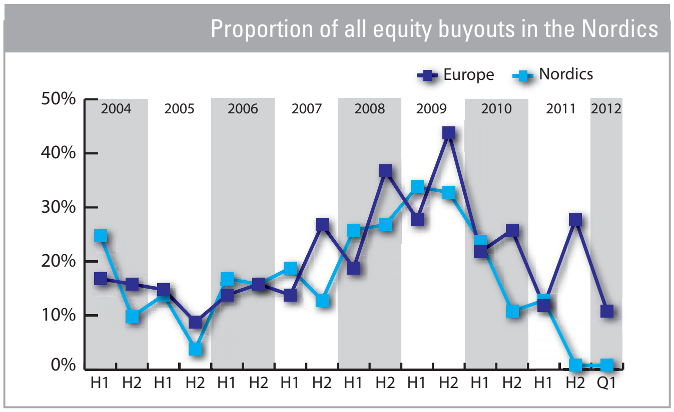
It is too early to tell whether European buyout activity in Q1 2012 will end on a high note, but so far trends are not encouraging. Following the slight uptick in yearly transactions from 2010's levels, activity in Q1 2012 was 94 deals worth €8bn, compared to the 134 deals worth €15bn recorded in Q1 2011. Reaching the same level as H2 2011 will also prove difficult. These declines are primarily explained by the continuing financial turmoil in Europe and its associated economic difficulties. They are first reflected in the decline in mega-buyout (>€2bn) activity. Whereas four such deals were recorded in 2008 and 2010, 2011 only saw two while Q1 2012 saw none.




Source: *unquote" data*

**Nordic region had easier credit as eurozone bailouts were negotiated**

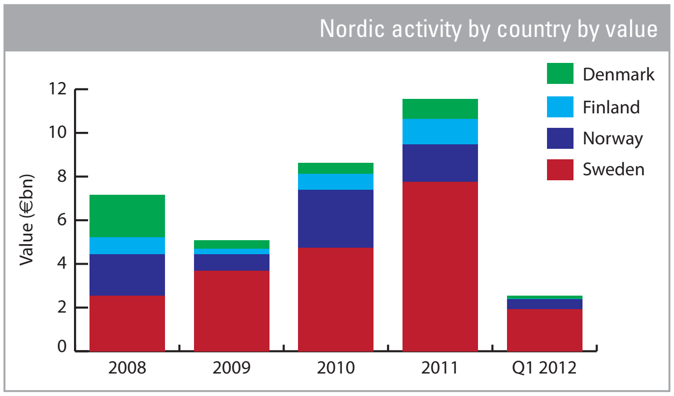
The Nordic countries have been showing a lower proportion of all-equity buyouts than the rest of Europe for several months now, highlighting easier access to leverage in the region. *unquote" data* didn't record any all-equity transactions in the Nordic region for H2 2011 or Q1 2012. By comparison, such deals accounted for more than 25% of all European buyouts in H2 2011, before falling to around 10% in Q1 2012. This reflects the soundness of the Nordic financial system (sound balance sheet; readily available debt; local high-yield bond market) as well as the somewhat differing impact of the eurozone bailout packages' negotiations.




Source: *unquote" data*

**Sweden still the driving force in the region (particularly in 2011)**

The breakdown of activity by country shows contrasting results. While Sweden's share of transactions has been stable since 2008, never falling below 76 deals, the value of Swedish deals steadily increased from €2.5bn to €7.7bn in 2011, driving the region's growth. Notable large industrial transactions have included Securitas Direct AB (€2.3bn), Dometic (€1.3bn) and, recently, Ahlsell (€1.8bn). Other deals were recorded in the increasingly important software and corporate services sectors (Skype, €1.9bn) as well as in technology (Stofa in Denmark, Hafslund Fibernett AS (HFN) in Norway). Venture deals, as well as innovation, are waning in the Nordic region.

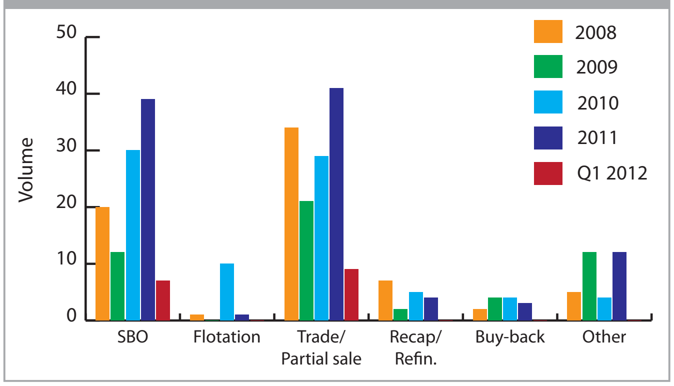



Source: *unquote" data*

### SBOs and trade sales most popular exit routes

Two striking features of the Nordic exit pattern since 2008 are the strong rise of secondary buyouts as well as trade sales. SBOs increased threefold from 12 transactions in 2009 to 39 in 2011 and Q1 2012 recorded seven. Large deals this quarter included Ahlsell (€1.8bn) and Anticimex (est €300m).Likewise, trade or partial sales doubled from 2009 to 2011, as markets and industrial sectors recovered steadily in the Nordic region, forming more than half of exits in early 2012. Large recent trade sales included Nycomed Pharma (€9.6bn), Skype (€5.7bn) and Point International (€770m). Flotations are also noteworthy, as a spike was noticed in 2010 in a subdued European space when Pandora (€3.7bn) and Chr Hansen (€1.7bn) were floated, but have decreased substantially since, contrary to European trends, with only one IPO noted in 2011.

Nordic exit routes

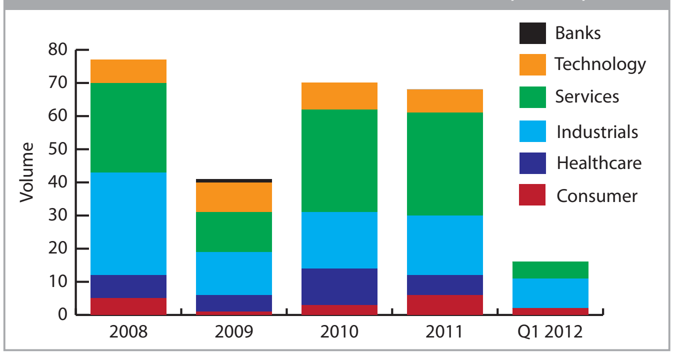



Source: *unquote" data*

### Industrials offer steady market opportunities

A striking feature of the Nordic buyout sector's trends over the past four years has been the continuous importance, and indeed revival, of the industrials sector. The share of this sector's deals never fell under 25% of total volume, and it has gained 16 percentage points since 2008, when 31 were recorded, to Q1 2012, when it made up nine of the period's 16 deals. Although it has increased in proportion lately, the consumer sector has remained negligible throughout the period. Services, on the other hand, recovered from its 2009 trough and now makes a third of all volume. Technology deals have declined sharply after 2009's surprising high, only representing 10% of transactions in Q1 2012. This low volume is hiding the change in that sector, where larger ventures have become less important than focused digital innovations.

Nordic buyouts by sector

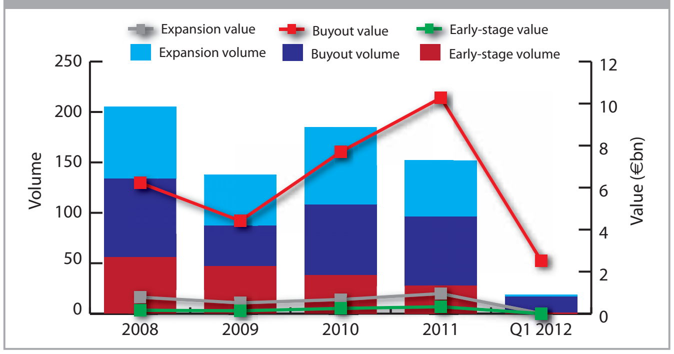



Source: *unquote" data*

### Nordic region boasts most mega-deals

Despite the decline of Nordic transactions during 2010-2011 – which amounted to a mere 152 deals worth €11.5bn – the buyout markets' value has gone up from a third of transactions in 2009 to a little under half in 2011, while their proportion stabilised at around 90% of values. Most of the buyouts were, unsurprisingly, in the sub-€150m range, but the upper mid-market (>€500m) and large transactions (>€1bn) staged comebacks in 2009 and 2011. Securitas Direct AB (€2.3bn), Dometic (€1.3bn) and Com Hem (€1.8bn) were last year's largest deals, following Skype (€1.9bn) in 2009. Munters AB (€770m), Ovako Group and Ambea (€850m), on the other hand, made up for much of the rise in 2009.

Nordic transactions by deal type




Source: *unquote" data*

# 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 Priate 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 Entreprenorsfonden | | | 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 |

## 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 & Kemppinen 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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