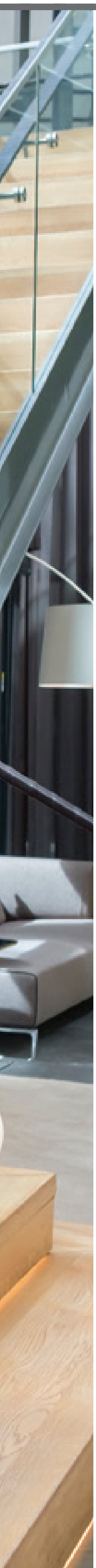
Calm & collected

SPONSORED BY PERMIRA AND PwC



Nordic investors remain unruffled by the political and economic uncertainty shaking some of the markets on their doorstep. Adam Le and Victoria Robson report

PHOTOGRAPHY BY GÖRAN EKEBERG

On the morning our panel of industry experts convened in Stockholm to discuss the Nordic market, the city was quiet, almost sleepy, with many of its inhabitants already out of town on their summer holidays. The atmosphere was a far cry from the violent protests 600 miles away in Hamburg, where leaders of the world's major economies were gathered for the G20 summit.

The calm in Stockholm epitomises the region's reputation as a stable and safe investment environment, in stark contrast to the political and economic headwinds buffeting some of the world's largest markets, including China, the US, the UK and other members of the EU.

"The logical answer as to whether the political uncertainty in Europe affects the Nordics should be yes. But it's not," says Daniel Winther, the Stockholm-based investment director, private equity at Skandia Asset Management. The LP manages $50 billion with a 10 percent allocation to private equity.

But the region is not entirely immune to internal political uncertainty, Winther adds, citing the near collapse of the Finnish coalition government in mid-June and a general election in Sweden next year where the outcome is far from certain. "Although we haven't faced real political headwinds for some time, they could emerge," he notes.

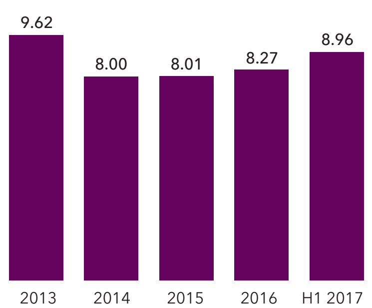
Mature, sophisticated, innovative and hosting a large number of global companies, the Nordic market "punches well above its weight internationally", says Ola Nordquist, head of Nordics at Permira, who is also based in the city. He describes the current global uncertainty as "an opportunity" for GPs.

"It's about adapting to it. Our funds are being invested in a constantly changing world. That's part of our job," he says.

Permira closed its sixth buyout vehicle, which invests in the Nordics as part of »

NO PLACE LIKE HOME

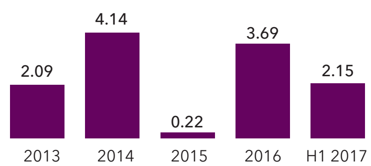
Capital raised by Nordic-based fund managers ($bn)



Source: Private Equity International

NORDIC WATCHING

Capital raised by funds targeting the region ($bn)

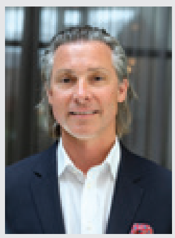


Source: Private Equity International

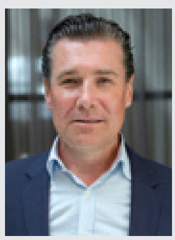
MEET THE ROUNDTABLE

ERIK WALL
Partner, strategy&
PwC
Stockholm-based Wall has worked on numerous deals, due diligences and M&A projects with private equity firms. He previously worked for information technology company Ericsson and has 14 years of experience in the TMT industry.

DANIEL WINTHER
Investment director, private equity
Skandia Asset Management
Winther invests in international mid- and large-cap private equity funds and co-investments, focusing on Europe and North America, and has invested, on aggregate, approximately $1.5bn since 2012.



OLA NORDQUIST
Partner, head of Nordic office
Permira
Nordquist has worked on a number of transactions for the firm, including aquaculture company Pharmaq and communications group TDC. Prior to joining Permira, Ola worked in London at Apax Partners on a number of buyouts, specifically covering the Nordic region, and in M&A at Lehman Brothers. He was a manager in the strategy division at Andersen Consulting in Washington DC.



PER OLOFSSON
Head of alternative investments
AP Fonden 7
The seventh Swedish National Pension Fund has SKr344 billion ($41.2 billion; €36.1 billion) of assets, of which 3 percent is invested in private equity. Olofsson has been with AP7 since 2002.

» a global remit, on €7.5 billion at the beginning of 2017. The fund, which is already more than 20 percent deployed, includes commitments from existing and new Nordic LPs. Permira also works to provide additional opportunities to its LP base through co-investment, Nordquist says.

Uncertainty elsewhere may even drive investment into the region as "investors would rather look at the Nordics than other parts of Europe", says Per Olofsson, head of alternative investments at the seventh Swedish national pension fund AP7, which currently has assets under management of approximately SKr344.5 billion ($41.2 billion; €36.1 billion). Although the fund is invested in GPs in Sweden, Norway, Finland and Denmark, "[we] probably have less of a home bias than some of our peers", he notes.

When confronting uncertainty, "the key is to keep disciplined and diversify across vintages", Olofsson says. "Given high asset valuations, any future volatility is a concern." However, he adds that it "maybe quite healthy. It also creates opportunities."

He adds: "I don't see any major changes [to the investment environment ahead]. As long as interest rates stay low funds will have no problem raising capital and the exit environment will be relatively healthy."

FEVER PITCH

Fuelled by historically low interest rates and fierce competition for assets, the deal environment is anything but sedate. "The temperature is very high," says Stockholm-based PwC partner Erik Wall. "There's a lot of activity. For every deal, there are a lot of funds looking at it, maybe 30 percent-50 percent more than in previous years."

These include Italian, French, German, UK and US funds, such as a General Atlantic-led group that acquired a majority stake in Swedish online real estate market place Hemnet in December 2016.

Infrastructure funds are also extending their scope and some of the larger Nordic vehicles are investing down the scale, Wall adds.

Looking forward, he expects to see the flow of carve-outs continue. He is keeping an eye on the bond markets in case there is a downturn, including "who is exposed, what could happen to different sponsor-backed targets", he says.

Most deal activity has been focused at the smaller end of the market, "where you've seen a flurry [of activity]", says Nordquist, adding that larger transaction flow has been slower. In bigger-ticket deals, GPs face stiff competition for assets from the public markets and Asian buyers.

> ***For every deal, there are a lot of funds looking at it, maybe 30%-50% more than in previous years***
>
> **Erik Wall**

"Before, we didn't really consider it a threat if a company wanted to be sold via the public market," says Nordquist. "That is now a real risk due to the high valuation levels. We've also seen a trend for credible Asian buyers coming into Europe. That was not as prevalent before."

Interest from Asian strategic investors also creates opportunities to partner with them. "We've been spending time in Asia making sure our assets are known, and learning more about buyers' interests and what can be done in collaboration," Nordquist says.

GETTING TECHNICAL

Although they share similar business norms and processes, each local market has different economic drivers "and the investments you make can be quite different", says Nordquist.

Sweden enjoys a diversified industrial base; Norway is rich in raw materials, energy and fishing; Denmark offers a lot of opportunities in healthcare, logistics and shipping; Finland is resource-driven with strong tech and start-up industries; and Iceland has specialised in data centres and resource-intensive industries such as aluminium.

However, investment in technology is a theme across the region. Of its sub-sectors, software as a service (SaaS) is particularly "hot", says Wall. "The underlying growth [in the SaaS market] is still 10-plus percent and the market is still fragmented," he says.

The level of interest is exemplified by the sale in late June by KKR of its remaining stake in Norwegian software company Visma to a consortium led by HgCapital, an existing investor, and including Singapore's GIC, Montagu and Intermediate Capital Group. The deal valued the company at $5.3 billion making it the biggest European software buyout to date, according to KKR.

Wall points to the 3.3x return HgCapital made when it exited Danish hosting and cloud business Zitcom Group in June after only 18 months as an example of the scope of the opportunity. This encompasses not only tech companies, but the potential impact of new technology on how companies operate internally and engage with customers, Wall says. "Digitisation is something that has become very important in the operational improvement of a company," he says, noting it applies to GPs too, where it is transforming operations and deal sourcing.

Permira, which invests in consumer, financial services, healthcare, industrial and technology sectors, has deployed a "significant portion" of its recent funds into »

We've seen a trend for credible Asian buyers coming into Europe

Ola Nordquist

> I would love GPs to come down a bit in size. LPs are part of the problem
>
> Daniel Winther

» technology deals, says Nordquist. "We talk about it across sectors all the time – consumer tech, fintech, industrial tech, health tech. Here in the Nordics you see a lot of start-ups maturing, a lot of success stories. To find the dealflow you have to be specific and proactive and have a clear point of view about the latest trends."

VENTURING OUT

The venture capital segment of the Nordic market is particularly vibrant, says Winther. "There are a number of new managers popping up and a lot of new capital flowing in and a lot of activity in the venture growth

space, which is very encouraging for the future. Skandia has one of the biggest VC portfolios in Europe, which has been quite a contrarian view, but it has paid us well. Our exposure is 80 percent US, 20 percent in Europe."

Getting to know companies very early in their lifespan pays off for advisors and managers alike, says Wall. "Start-ups are growing so fast, adopting new things. I know a lot of GPs are, if not investing in them, closely monitoring what is happening to keep track of sub-sector trends."

In line with this theme, in the year ahead, Nordquist expects to see a greater emphasis on growth investments. To that end, both he and Winther note that deal structures are changing, with managers more willing to take minority stakes.

"We've been looking at opportunities and realised that you can exert real control and influence without our funds owning 100 percent of a business," says Nordquist. "We are more flexible in terms of sizes and can take slightly smaller tickets in very fast-growing companies in fast-growing industries where we also see the opportunity to pursue a buy-and-build strategy. This kind of flexibility is going to be more and more important for us."

GPs are also spending more time developing relationships with management teams than they did, says Wall. "If the company has been owned by PE before, then the management are also willing to invest that time."

Here Sweden stands apart from the other Nordic markets where there has been less private equity penetration. "When investing in Sweden and talking to management teams there is always one or two that have been in a private equity situation before. It's a more mature market. In other countries private equity might be totally new for the management team," Wall says.

Fundraising by Nordic-based managers has remained relatively steady over the past few years, with around $8 billion

raised in 2014 and 2015 and $8.3 billion in 2016. However, in the first half of this year alone, funds have collected almost $9 billion, according to *PEI* data.

"We're at the point in the cycle where fundraising is very quick and a few funds tend to close in the first round having reached their target or hard-cap," says Olofsson. "Funds have gone from €350 million to €600 million and now €1 billion-plus. In this segment there's a clear advantage to being local, but moving up to the larger end, for funds around €2.5 billion or so, competition is much tougher. There's no real advantage in being local."

> **For funds around €2.5 billion or so, competition is much tougher. There's no real advantage in being local**
>
> Per Olofsson

At the same time, he adds, "There are a number of GPs that used to be able to raise funds at around €500 million but in their last fundraising they reached around €200 million and they will probably not be able to raise funds again."

Winther notes that the past few years have also seen a number of spin-outs and GPs launching different types of vehicles. "It's astonishing. It's been a very creative period. It also creates a shift in the industry, with LPs having to think more than once about which horse to back."

TIME TO TRIM THE SAILS?

Escalating fund sizes are a concern, however. "I would love GPs to come down a bit in size," says Winther, conceding, "LPs are part of the problem". The flood of returns to existing LPs and increasing numbers of LPs investing in alternative assets has driven some of this momentum, he says.

Olofsson agrees. "At AP7 we've had large inflows and good returns. We've been growing in size. Then you have the denominator effect, which means that we have to put more money to work, and to commit more capital. We would need to put quite a lot of money to work to reach our target of 4 percent invested and 8 percent committed capital [exposure to private equity]. We're a bit further than halfway."

But AP7 is remaining disciplined. "We'd rather stick to a diversified portfolio. As LPs we want to see regular cashflows, though not too regular – having calls and distributions all the time is tough for us to handle – but every quarter or so, a couple of times during a quarter would be sufficient."

Local managers have played a role in this virtuous circle. They have been "one of the best performers in our portfolio for a very long time", says Winther. "We try to look for the best opportunities whether in Europe or America, but taking a step back, Nordic GPs have done really well in comparison." ■