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analysis

nordic report 2017

Delphi

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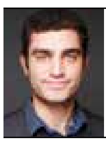

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CONTENTS

Competition intensifies after strong year

Delphi's managing partner, David Aversten, explores the implications of another 12 months of strong private equity dealflow in the Nordic region

The year is shaping up to be another robust one in Nordic private equity, with 70 buyout deals completed in the first three quarters of 2017 at a value of €11.3bn.

There have been some stark regional differences, though. Sweden, traditionally the biggest market, has been home to the greatest number of buyouts at 27 – 39% of the total. Meanwhile, Norway has attracted 51% of total capital invested, thanks mostly to the buyout of Visma, the country's biggest ever private equity deal. Finland has had a weaker year, contributing seven of this year's 70 buyouts and only 2% of the region's total deal value.

Overall, the market continues to be one of Europe's leaders, underpinned by strong fundraising, buoyant public markets, healthy corporate balance sheets and continued economic growth. However, the good times have brought some challenges; namely, intense competition for assets.

After several years of strong dealflow, solid mid-market targets are becoming scarcer, with more work going into hunting down smaller firms; 57% of buyouts completed this year involved firms with an enterprise value of less than €50m. If this continues, 2017 will see the lower end of the market take up its biggest slice of buyouts since 2012.

Despite the extra work going into finding deals, buyouts show no signs of slowing, with this year's volume on course to match recent years' elevated levels. More competition is coming from abroad, with international investors chipping away at the dominance of local GPs. During the first three quarters of the year, local GPs conducted 70% of buyout deals, a figure which has steadily declined each year from 77% in 2014.

GPs looking for secondary buyouts are having to compete with other exit routes. Elevated valuations in public markets have continued to encourage a high number of flotations this year, reducing the scope for large-cap secondary deals. Indeed, 26% of buyouts were sourced from other private equity houses this year, down from 30% in both 2016 and 2015.

Venturing north

Another area of the market that is adapting is venture capital. GPs are putting a lot of work into finding firms and leaving few stones unturned; the technology, life sciences and clean technology sectors are increasing in popularity, while deal numbers fall and average deal size steadily increases.

Market players are adjusting well to the competitive environment. Average deal value is rising, but this is not a sign of excessive valuations; rather, it reveals a shift toward greater quality and smarter investments. The market is seeing a greater degree of specialisation, with more fund managers carving out their own niches in the crowded market, whether it is a specific deal size, situation or sector.

Amid the search for yield and competitive environment, what we are seeing in the Nordic countries is not irrational exuberance and excessive leverage, but smart and evolving approaches to investment. ■

David Aversten, managing partner, head of private equity, Delphi

www.delphi.se

About Delphi

Delphi has expertise in all core areas of commercial law. An important part is the corporate desk, with a large number of domestic and cross-border M&As and extensive private equity, banking, finance and capital markets practices. Delphi is also well established in high-tech related legal areas such as IT, telecoms and intellectual property.

Delphi has clients mainly in Scandinavia, Europe and North America and further co-operates with law firms all over the world including China and Eastern Europe. Delphi regularly acts for Nordic and international private equity and venture funds on acquisitions and divestments, acquisition finance, management incentives as well as IPOs. Delphi's private equity practice also includes fund formation and LP advisory.

Statistical overview

In-depth analysis of Nordic private equity dealflow, inclulding buyouts, growth and venture capital, and exits

Buyouts

Analysis of dealflow data in the Nordic countries shows a maturing market, with growing competition for assets.

There were 21 buyouts in the third quarter of 2017 – the lowest since Q3 2015, but not dramatically below the average level over the last few years. Indeed, 2017 has been another busy year for Nordic GPs, with 70 buyouts completed over the first three quarters of the year, putting dealflow on course to finish in the 90 to 100 range. This compares with 102 in 2016 and 89 in 2015, and shows the market is maintaining its momentum after a run of healthy years.

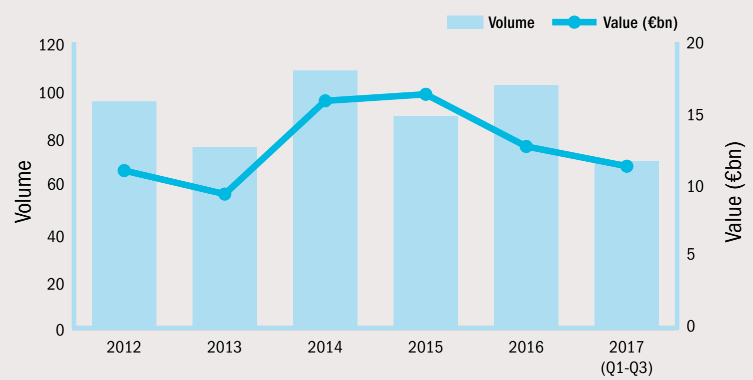
This momentum has been buttressed by many factors such as decent economic growth and high valuations in public markets, which has a knock-on effect on activity in private markets. The OMX Stockholm 30 index is up nine per cent this year and 65% over the last five years.

Lower-mid-market

Digging down into the data reveals some interesting market developments. GPs are still completing plenty of large deals, but there has been a slight shift in focus toward the lower mid-market with more deals involving targets with an enterprise value below €50m. So far this year, 57% of buyout deals have fallen into this category, up from 48% in 2017. If the trend continues, 2017 will be the biggest year for deals under €50m since 2012.

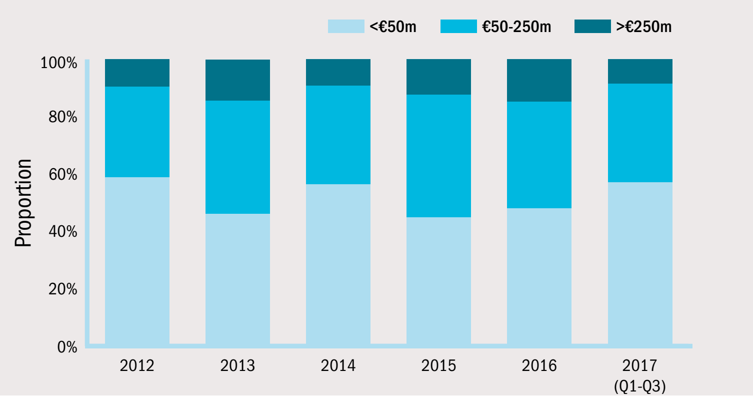
GPs looking to deploy capital in the region have picked most of the low hanging fruit, and are now looking at less obvious opportunities in the lower mid-market. Despite the shift in focus to a lower value range for deals, the amount of capital invested has not come down, and neither has deal volume, suggesting GPs are successfully seeking out deals despite the more competitive environment.

Nordic private equity buyout activity



Source: *unquote" data*

Nordic private equity buyouts by size range



Source: *unquote" data*

Meanwhile, large-cap buyouts (involving targets with an enterprise value over €250m) have constituted 9% of deals over the course of the year, down from 15% last. That is not to say the top of the market is slowing down. KKRs sale of Visma to a consortium of investors led by HgCapital valued the business at €4.8bn, making it the second largest deal in Nordic history (the biggest is the 2006 take-private of telecoms giant TDC, valued at €10.2bn). Other large-cap deals have also involved very highly valued firms.

An increasing amount of competition is coming from abroad. So far this year, 70% of buyouts have been undertaken by Nordic GPs, a figure which has steadily declined from 77% in 2014.

Venture and growth capital

Unlike buyouts, the number of growth capital and venture deals has settled at a new, lower level. After 30 to 40 deals a quarter over 2014 and 2015, the number of investments began to fall in early 2016 and has settled at a new plateau of around 15 to 25 deals each quarter. Yet substantial amounts of capital are still being invested. The amount of invested in early-stage and growth capital deals has climbed substantially this year, with €1.7bn spent over the first three quarters of the year. This compares with the €1.1bn invested over the entirety of 2016.

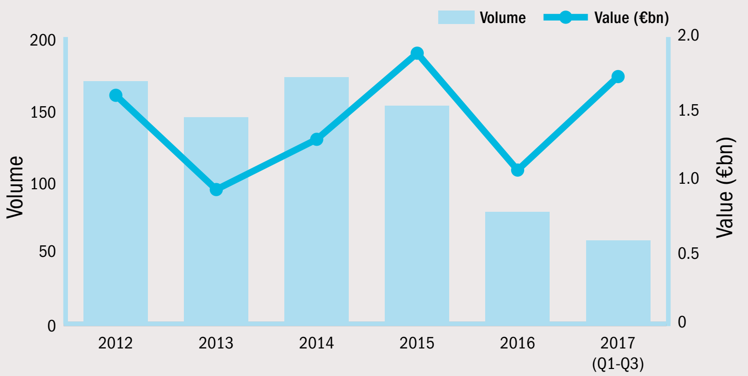
The proportion of earlier-stage deals being completed by local GPs has remained fairly stable at 67% in 2015, 68% in 2016 and 70% in 2017, which suggests local networks are still important in securing investments amid greater interest from abroad.

Sourcing and exits

Deal sourcing data reveal some interesting trends. In contrast to the rest of Europe, secondary buyouts in the Nordic region are in steady decline. Of the deals completed this year, 26% were sourced from other GPs, down from 30% last year. Family/private vendors have been the main source of deals this year. Meanwhile, there has been a distinct lack of corporate carve-outs, with only 9% of buyout deals sourced this way in 2017.

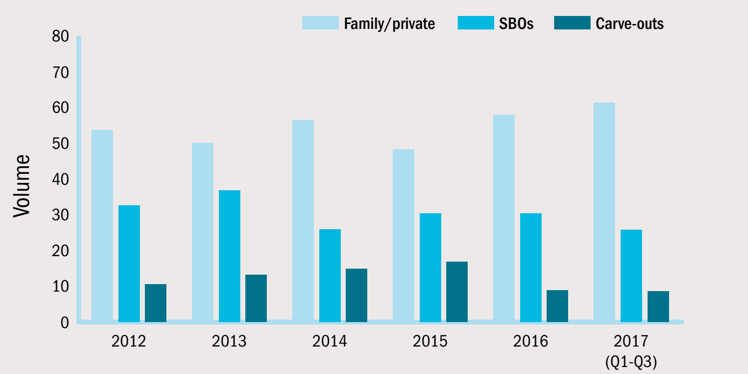
Exit volume fell in 2016 and looks like it will post an even lower year in 2017. In part, this will be due to an excess number of exits in the post-financial crisis years, as GPs offloaded their pre-crisis baggage amid the recovery in assets prices – a trend seen across Europe. Exit conditions remain favorable, with asset prices high and a larger number of IPOs. ■

Nordic VC and growth capital activity



Source: *unquote" data*

Nordic private equity vendor types



Source: *unquote" data*

Public displays of affection

Private equity dealflow in the Nordic region may be lacklustre as a whole this year, but initial public offerings are undergoing a significant resurgence. Nicole Tovstiga reports

Investors agree that competition is heating up in a Nordic market slanted towards sellers, given the relatively small number of fresh assets on the block. "There is a lot of competition in the processes we're in," says Delphi managing partner David Aversten. "The M&A market in Sweden is very intense at the moment and driving deals."

Per Skoglund, director at Carlyle, agrees: "The Nordic private equity market is relatively mature and transparent, and attracts investors from all over. Ten to 15 years ago, it was probably not as competitive, and intermediators typically enabled investments. But now even the private equity market is transparent, not just the stock market, with deals often happening on a bilateral basis."

Premium prices

Despite this increased transparency, the sheer amount of competition for the best assets means that the Nordic countries are by and large an expensive geography for private equity. According to the *Multiples Heatmap* published by *unquote"* and Clearwater International, the average entry multiple for private-equity-backed buyouts in the region has rarely dipped below the 10x mark in the past 18 months. It even reached a high point of 11.8x in Q2 2017.

The market may be frothy, but the oddity is that dealflow data paints a much less hectic picture. On the buyout front, *unquote"* recorded 78 transactions worth an aggregate €11.5bn in the first 10 months of the year. This is not a significant step-up compared to the €9.5bn seen across 81 deals over the comparable period last year (although the aggregate value hike partly highlights the issue of rising entry multiples). This is especially of note when compared with the wider European market, which has been steadily moving in the opposite direction this year.

Skoglund is sceptical of firms keeping too much of their powder dry while waiting for competition to cool down, though: "A private equity firm would probably say they would prefer to sell in the current market. But they are pressured to invest and can't afford to bide their time too much."

But even exit figures paint a picture of caution: data from *unquote"* suggests private-equity-backed exits excluding IPOs could be witnessing a four-year low. From January to October 2017, *unquote"* recorded 71 exits, while 115 were logged in 2016, though the exit figures include VC-backed companies and partial exits. This is down from a relatively stable period between 2012-2015, which saw 136, 143, 140 and 141 exits consecutively, or an average of 140 per year.

IPO window

Within this overall picture, local GPs are nevertheless making the most of available opportunities, and this is particularly evident when looking at IPOs. October saw three major listings – Balco in Sweden, Webstep in Norway and Terveystalo in Finland – while in September games developer Rovio listed on the Helsinki stock exchange. These headlines reflect data from *unquote"*, which shows that Nordic GPs and VCs have listed 10 assets so far in 2017, compared with seven for the whole of last year. Prior to that, there were 12 IPOs in 2015, with 15 recorded in 2014 and seven in 2013.

"There's a lot of faith in the IPO route," says Tony Elofsson, head of ECM Nordics at Carnegie Investment Bank. "It's all about confidence on both the buy- and sell-side." Elofsson worked on recent private-equity-backed listings where Carnegie was joint global coordinator and joint bookrunner, including Balco, Terveystalo and Rovio.

Activity in the private equity sphere reflects a wider appetite for listings on Nordic stock exchanges. EY's global IPO Trends Q3 2017 report highlights a 50% year-on-year increase in IPOs. For 2017 so far, the Nordic countries recorded 63 IPOs. This is the highest number of listings for a single region, followed by the UK in second place with 50 IPOs so far this year, central and southern Europe with 16, and the DACH region with 10. "Stockholm is very popular with non-Scandinavian companies seeking to list," says Delphi's capital markets partner Mats Dahlberg. "It's a growing market."

Keeping options open

This resurgence of public market appetite is one of the reasons why competition has become fierce for PE buyers. Historically, it was difficult for sponsors to cash in a material stake in an IPO. But now a significant number of cornerstone investors are prepared to buy a sizable investment on day one, if not even before the IPO. This gives Nordic companies more time to decide which exit route to opt for.

"When it comes to running dual-track exits, Nordic companies are able to choose relatively late in the process which route to opt for. But in the rest of Europe, companies must make the decision much earlier," according to Skoglund.

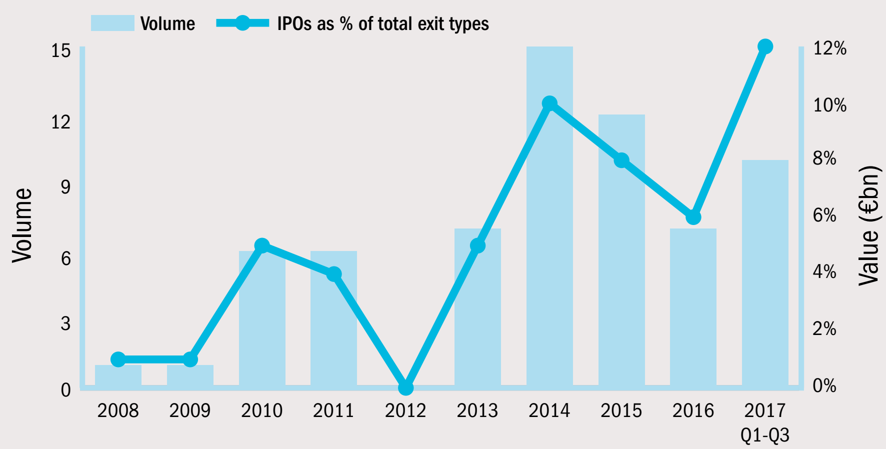
CapMan buyout partner Jan Mattlin sees IPOs as a main track process, where previously dual-track process placed M&A first and IPOs second. "The exit routes have completely changed from only two or three years ago, when private equity typically overpaid [compared with] the IPO market," he tells *unquote*".

"Stockholm is very popular with non-Scandinavian companies seeking to list. It's a growing market"
Mats Dahlberg, Delphi

How long the public markets will enjoy PE backed exit activity is a bet few are willing to make. If valuations go down or investors get nervous, stock exchange valuations could plummet. "At the moment it feels good but it's hard to speculate. There is the risk that at some point the market could go down relatively fast," says Delphi's Dahlberg. "We are looking ahead six months at maximum. The pipeline is looking good, but call me in six months and the picture could be completely different."

The IPO window closing down could mean fewer options on the table for GPs in exit mode – but those sponsors on the other side of the fence would no doubt welcome one less source of competition for the relatively limited number of assets coming to the market in the ever-popular Nordic haven. ■

Volume of IPOs and proportion against total exits



Source: *unquote" data*

Deal league tables

Buyouts

Investor	2012	2013	2014	2015	2016	2017	Total
EQT Partners	3	4	6	6	5	2	26
Accent Equity Partners		4	4	4	4	4	20
Nordic Capital	6	2	6	2	1	3	20
Norvestor Equity	4	1	3	4	5	2	19
Adelis Equity Partners		1	3	2	3	4	13
Altor Equity Partners	1	3	2	1	2	4	13
FSN Capital	2	2	2	5	1	1	13
Erhvervsinvest Management	1		2	4	3	2	12
IK Investment Partners	1	1	4	1	5		12
Maj Invest Equity	2	1	2	2	1	4	12
Polaris Private Equity	5	1	2	2	2		12
Priveq Investment	4	2		2	4		12
Valedo Partners	2	2	1	2	3	2	12
Axcel	2	4		1	3	1	11
Vaaka Partners	1	1	2	3	3	1	11

Source: *unquote" data*

Non-buyouts

Investor	2012	2013	2014	2015	2016	2017	Total
ALMI Invest	25	16	14	18	10		83
Seed Capital	7	22	12	14	6	4	65
Industrifonden	15	14	10	10	6	3	58
Northzone Ventures	7	4	13	12	4	4	44
Creandum	4	5	14	8	4	5	40
Lifeline Ventures	8	8	6	11		3	36
Sunstone Capital	8	4	10	6	5	2	35
Investinor	6	5	6	6			23
Reaktor Ventures		6	10	3	1	2	22
Vækstfonden	7	5	5	3	1	1	22
Finnish National Technology Agency	2	4	6	5	2	2	21
TESI	5	5	3	4	2	1	20
Inventure	5	2	7	3	1	1	19
Conor Venture Partners	4	4	3	3	2		16
Index Ventures	4	1	5	2	2	2	16

Source: *unquote" data*

Legal league tables

Legal firms by deal volume*

Firm	2012	2013	2014	2015	2016	2017	Total
Delphi	7	2	8	3	10	11	41
Accura	3	3	5	5	10	3	29
Roschier	8	1	13		1	2	25
Vinge	8	3	4	1	6	3	25
Hannes Snellman	3	2	3	4	8	2	22
Mannheimer Swartling	4	5		6	2	3	20
Bruun & Hjejle	3		6	5	2	1	17
Bech-Brunn	1	2	2	2	5	2	14
White & Case	1	1	3	4	3	2	14
Wiersholm Mellbye & Bech	2	3	3	2	3	1	14
Plesner	1	2	1	5	1	2	12
Setterwalls			1	3	4	1	9
Kirkland & Ellis	1	2	1	1	2	1	8
Castrén & Snellman Attorneys.	1	2		2	2		7
Cederquist	1	2			2	2	7
Freshfields Bruckhaus Deringer	1	1	3			2	7
Gorrissen Federspiel	1	1	1	1	2	1	7
Kromann Reumert	1	3		1	2		7
Schjodt	2	3	1	1			7
Selmer	1		1	2	2	1	7
Avance Attorneys	1	1	2			2	6
Borenius			4		1	1	6
Gernandt & Danielsson	1	1	1	1	1	1	6
Moalem Weitemeyer Bendtsen			1	3		2	6
BA-HR	1		2	1	1		5
DLA Piper		3		1		1	5
Horten		1	1	1	2		5
Travers Smith		1	2	2			5

Source: *unquote" data*

* Based on all PE-backed deals involving new equity commitments. Excludes exit situations, except where the acquirer is a PE house

Financial due diligence league tables

Top financial due diligence providers

Firm	2012	2013	2014	2015	2016	2017	Total
EY – Transaction Advisory Services	6	4	18	13	10	4	55
PwC	8	4	3	7	1	4	27
Deloitte	5	5	4	3	5	2	24
KPMG	2	7	3	2	2	1	17
ABG Sundal Collier		1			1	1	3
Carnegie Bank		1			1	1	3
Jefferies & Co				1		2	3
SEB Enskilda	2					1	3
ACCURA				2			2
Danske Markets					1	1	2
Grant Thornton UK			2				2
Handelsbanken Capital Markets		1	1				2
JC Rathbone Associates	2						2
Rothschild				1	1		2

Source: *unquote" data*

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