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Nordic Innovation Centre

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Nordic Private Equity - an industry analysis

- Increased investment activity in the early phases
- The total amount of capital is increasing
- Buyout funds manage the large portion of the capital □□

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Nordic Private Equity Industry

Development and status 2003 - 2005

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on request by the Norwegian Venture Capital & Private Equity Association (NVCA)
with financial support from Nordic Innovation Centre

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Summary

Overall the Nordic private equity industry is experiencing a positive trend. The total amount of capital available is increasing, and the Nordic countries are starting to attract international capital. There is also increased investment activity in the early phases, which is positive for young innovative firms.

The Swedish industry manages €31,611 million in risk capital, per June 2006. The corresponding numbers for Denmark, Finland and Norway are between €2,500 million and €5,000 million. Naturally Sweden also has the largest amount of capital available for investments.

Sweden is the leading Nordic country in this industry, both in size and in rate of growth. The majority of this can be attributed to an exceptionally large buyout-fund industry, but they are also leading on investments in most of the other phases. Sweden is also still the finance centre of the Nordic countries, thus attracting significantly more international capital than its neighbors.

The amount of funds raised is increasing in all the Nordic countries, with the exception of a slight overall decline in Sweden from 2003 to 2005. More than 90% of the funds were raised by independent funds. The independent funds were raised from a variety of sources with pension funds being the largest source. Norway is exempted from this where corporate investors was the largest source. Sweden raised more than 50% of its independent funds from outside the Nordic countries. Norway and Finland raised their money primarily from their own country or Nordic neighbors.

Most of the capital raised by Nordic funds is raised by buyout funds legally organized outside of the Nordic countries. In the Nordic countries there are still different kinds of obstacles for private equity funds to receive transnational investments. There is today a broad European understanding that we would have far more cross border investments in funds if the funds would encounter fewer obstacles to cross border capital raising. This is still an important problem especially for smaller growing venture capital funds.

Sweden has the largest number of investments, and in particular a significantly higher investment amount than the other countries, which can mainly be attributed to buyout funds. All countries, except Finland, show a positive trend in the amount of capital invested. With the exception of the buyout funds, the growth is spread out fairly evenly across the different phases. Roughly 30% of all Nordic investments in 2005 were made in biotechnology companies. Energy was at an overall low with only 2% of the investments. The remaining industries captured between 9% and 14% each. There were also some individual differences with the energy sector being very large in Norway (21%) and IT and telecom being large in Finland (24%) and Denmark (30%).

Finland has a very large amount of divestments compared to the number of new investments. The number of early termination divestments, which include write offs, repayment of preference shares and buy backs, account for 60% of the divestments in Finland. Sweden has an exceptionally low number of early termination divestments. Divestment by sale to trade buyers is the most common method of successful divestment across all countries.

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1 Introduction

This report is written by NTNU Entrepreneurship Center on request by the Norwegian Venture Capital & Private Equity Association and with financial support from Nordic Innovation Centre.

The goal of the report is to provide an overview over the Nordic private equity market and identify similarities and differences between Denmark, Finland, Norway and Sweden. The report is primarily based on data from 2003 to 2005.

Four topics are covered in this report. These are capital under management, fundraising, investments and divestments.

For more information about the specifics of each topic or country included in this study please see the reports from the individual countries.

2 Method

The data used in this report has been collected by the Norwegian Venture Capital & Private Equity Association (NVCA) in cooperation with the Swedish, Finnish and Danish associations (SVCA, FVCA and DVCA respectively).

All currency in this report is given in million euros. Data containing local currency has been converted using the following exchange rates: 1EUR = 7.463DKK = 9.174SKK = 8.130NOK. These rates represent the average official exchange rates for the period 2003 through June 2006.

The majority of the data used in this analysis was provided in aggregated form, by the national associations. These aggregations were based on results from former national studies and surveys performed independently of each other.

Naturally these data collection methods impose several limitations on both the extent and accuracy of analyses in this report. Since no raw data was available it is difficult to discuss the uncertainty of the data. The fact that several pieces of important data are lacking, or appear inconsistent, supports the assumption that there are uncertainties in these data, especially relating to comparability between countries.

Furthermore there is a problem of explaining results. We have referenced quarterly and yearly reports from the national venture capital and private equity associations in order to explain the results identified in this analysis. However, most of them are still weakly justified and sometimes borderline speculation.

3 Capital under management

3.1 Total capital under management

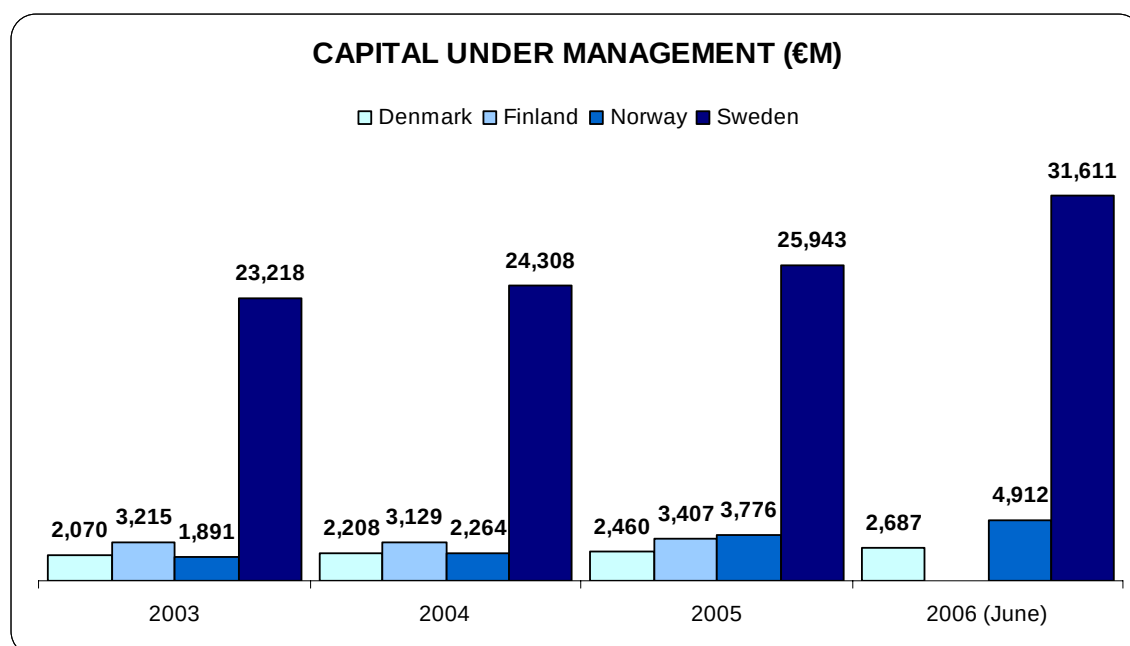


Figure 3.1-1: Capital under management^{1, 2, 3}

All countries show a positive trend in the amount of capital under management with the exception of a minor decline for Finland in 2004.

Sweden has significantly more capital under management than the other Scandinavian countries. The other countries are fairly even, with Norway in a second place, followed by Finland and finally Denmark. The difference between Sweden and the other Nordic countries can mainly be attributed to buyout funds (Figure 5.3-1).

Both Norway (30%) and Sweden (22%) experienced a significant growth throughout the first half of 2006.

¹ Data from Finland for 2006 is missing.

² Numbers are snapshots per December 31st for 2003 to 2005 and June 30th for 2006.

³ In this report the Norwegian data includes data from Norfund, a Norwegian development financial institution which invests risk capital in developing countries. Norfund invests fresh capital directly in companies and financial institutions and indirectly through local and regional investment funds.

3.2 *Available capital for new investments per June 30th 2006*

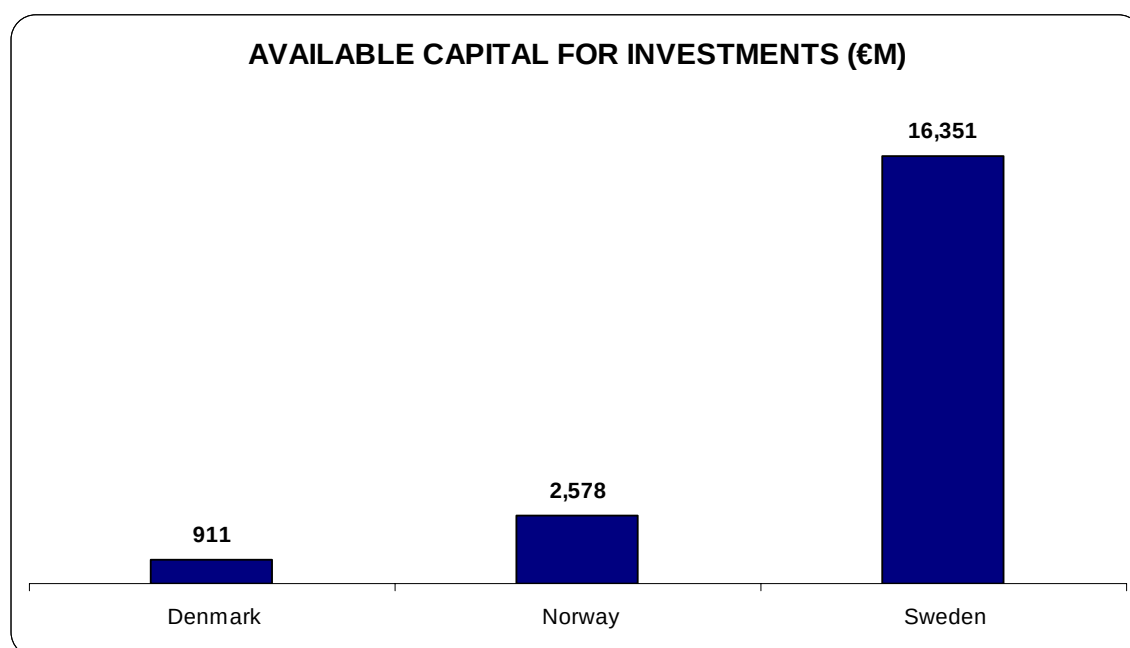


Figure 3.2-1: Available capital for new investments¹

Available capital is loosely proportional to the amount of invested capital.

The ratio of available capital/invested capital is highest for Sweden and Norway at 0.52. The ratio for Denmark is 0.33.

¹ Data from Finland is missing.

4 Fundraising

4.1 Total amount of raised funds

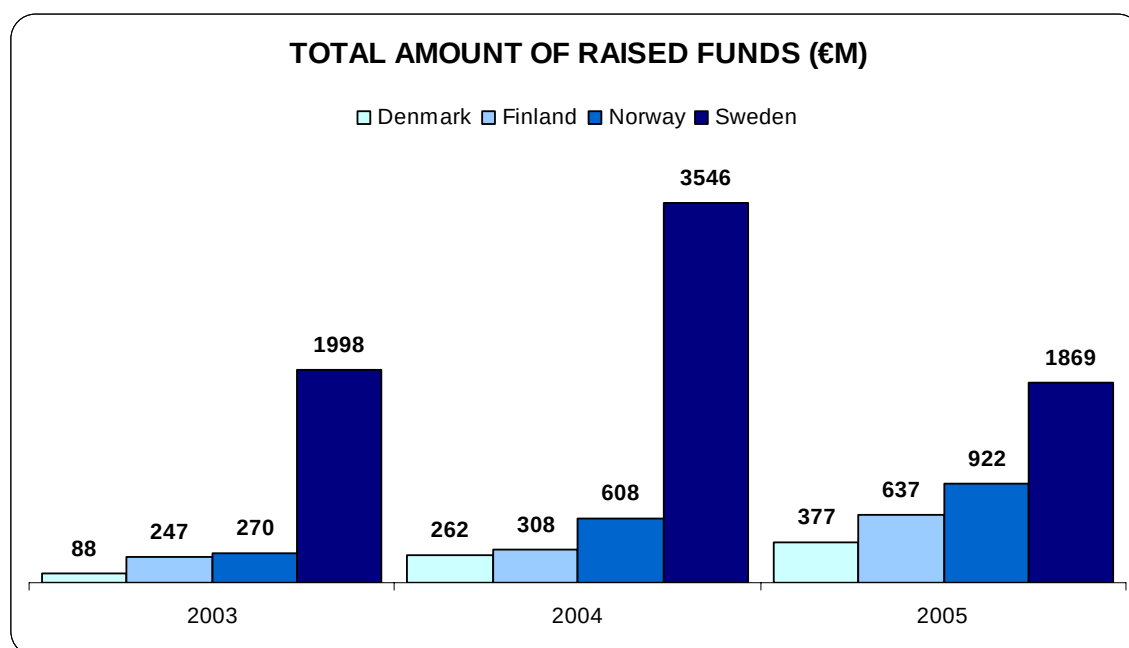


Figure 4.1-1: Total amount of raised funds¹

Denmark, Finland and Norway exhibits a positive trend in amount of funds raised.

Sweden has significantly more funds raised than the other Scandinavian countries which correspond with the larger market for managed capital. The exceptional growth in 2004 was due to a single fund raising over 70% of the total amount.²

¹ Numbers are snapshots per December 31st each year.

² SVCA Quarterly report Q4 2004 Figure 5.3-6

4.2 Independent funds raised – sources¹

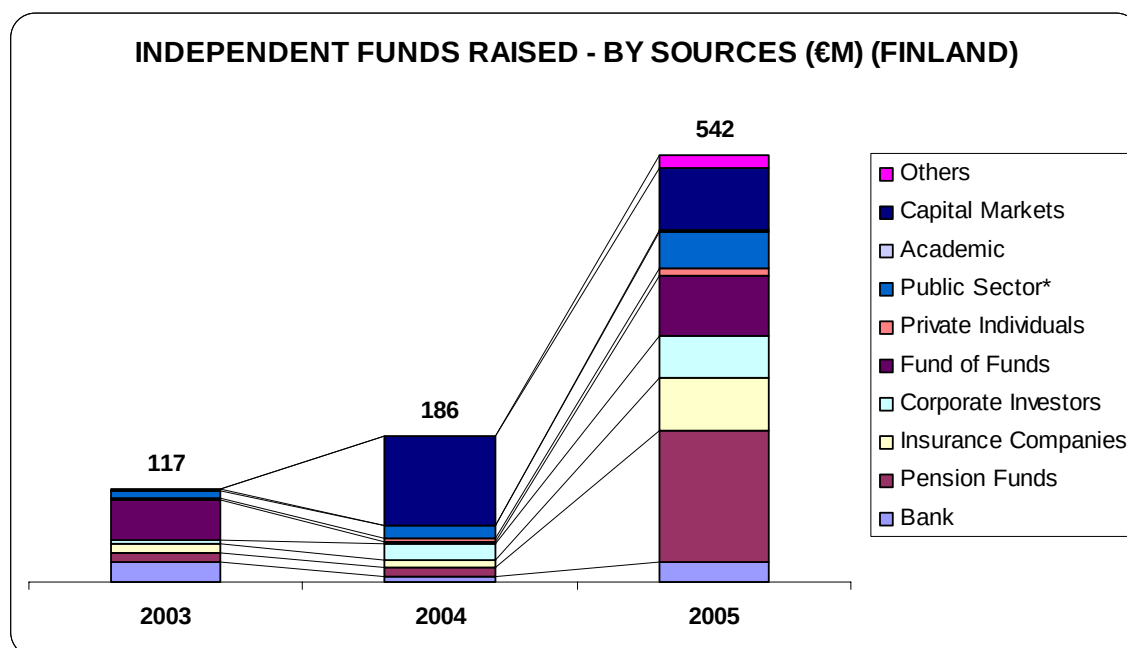


Figure 4.2-1: Independent funds raised - by sources (Finland)²

Finland has a very positive trend in the amount of independent funds raised. The increase is 59% from 2003 to 2004 and 191% from 2004 to 2005.

There appears to be a significant increase in funds raised from pension funds, insurance companies.

Funds raised from capital markets, and other funds, fluctuate too much to extract any patterns.

¹ Data from Denmark is missing.

² Numbers are snapshots per December 31st each year.

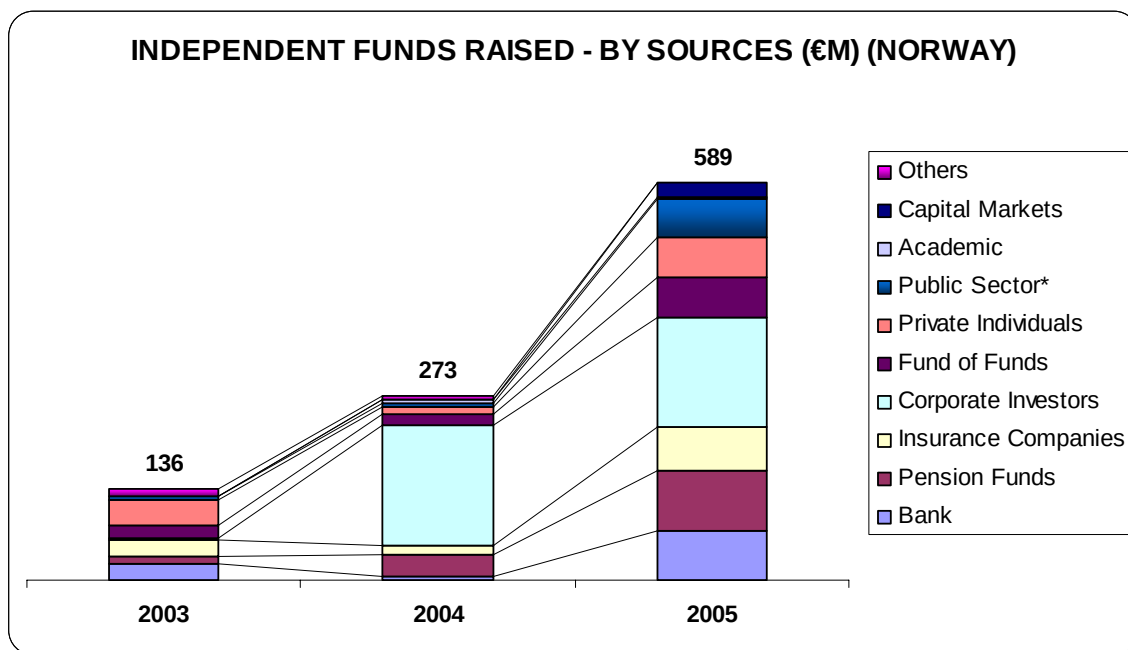


Figure 4.2-2: Independent funds raised - by sources (Norway)¹

Norway has a very positive trend in the amount of independent funds raised. The increase is 101% from 2003 to 2004 and 116% from 2004 to 2005.

The vast majority, 65%, of independent funds raised in 2004 were from corporate investors. The development into 2005 show a more balanced distribution and a slight decrease in absolute amount raised from corporate investors.

¹ Numbers are snapshots per December 31st each year.

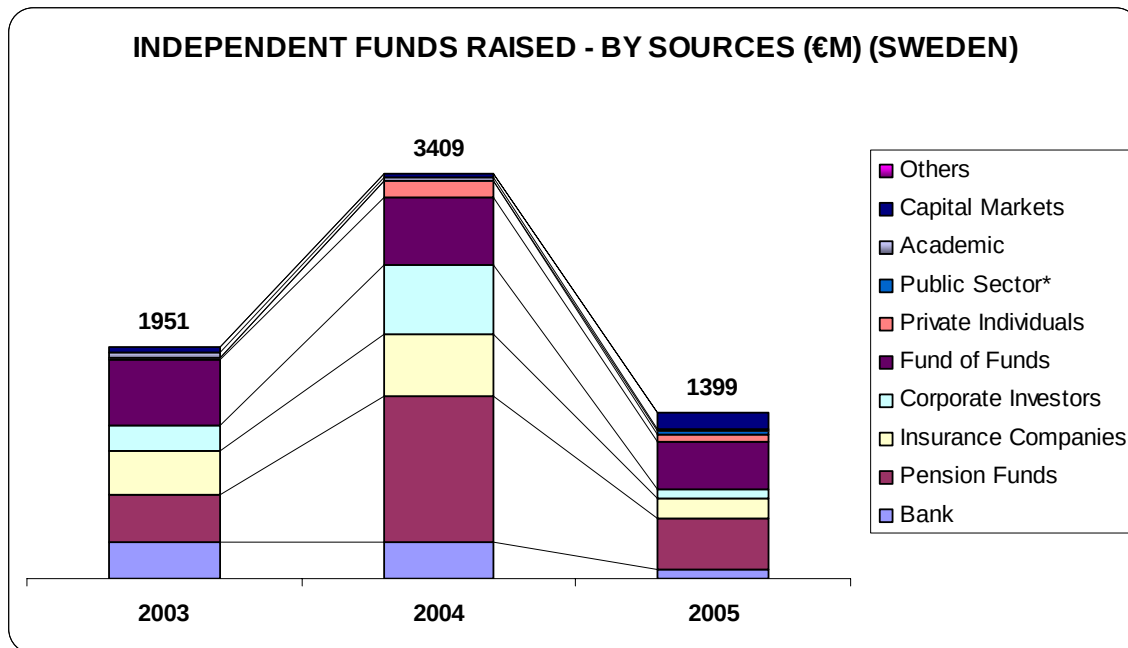


Figure 4.2-3: Independent funds raised - by sources (Sweden)^{1, 2}

Independent funds raised represent over 90% of the total funds raised and naturally exhibit the same fluctuations. (Figure 4.1-1)

The entire drop in funds raised from 2004 to 2005 is due to independent funds. Other funds actually experienced an increase of €325 million. This represents a drop in the ratio of independent funds to total funds, from 0.93 to 0.73.

The distribution of sources is balanced over the entire period, and neither the 2004 increase nor the 2005 drop can be attributed to any specific source of funds.

¹ The *others* category was not present in the Swedish survey.

² Numbers are snapshots per December 31st each year.

4.3 *Independent funds raised – geographic distribution¹*

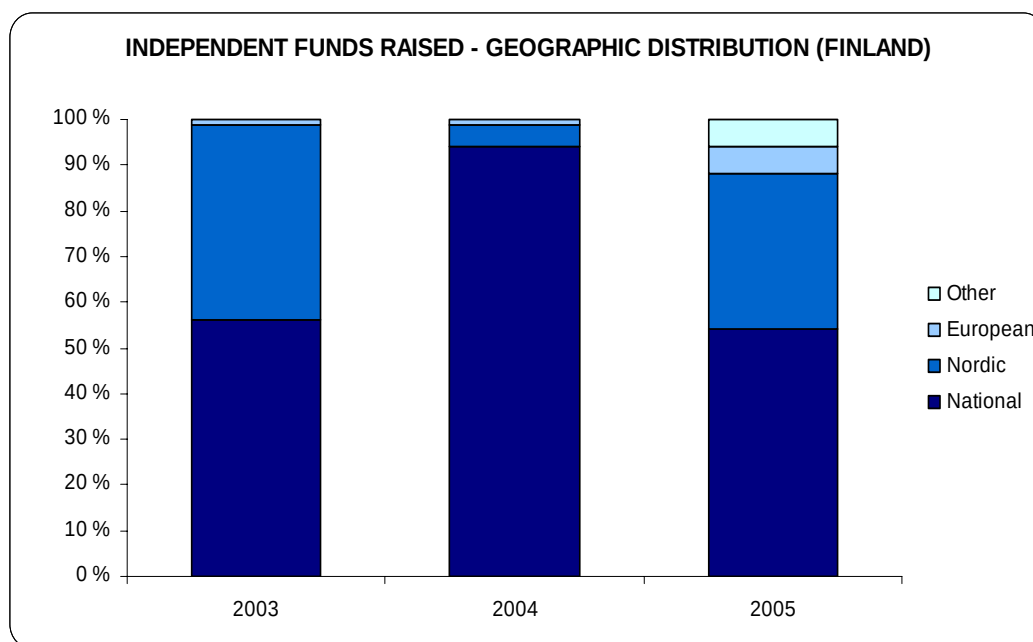


Figure 4.3-1: Independent funds raised - geographic distribution (Finland)²

The vast majority of funds raised in Finland are raised from the Nordic countries (including Finland itself). 33% of the funds were invested directly in international companies. (FVCA Statistics 2004)

The data for 2005 provides indication that Finish funds are starting to seek more international capital.

With the exception of a 40% shift from Nordic to national sources in 2004, the distribution seems to be fairly stable over the period.

¹ The data from Denmark is missing.

² Numbers are snapshots per December 31st each year.

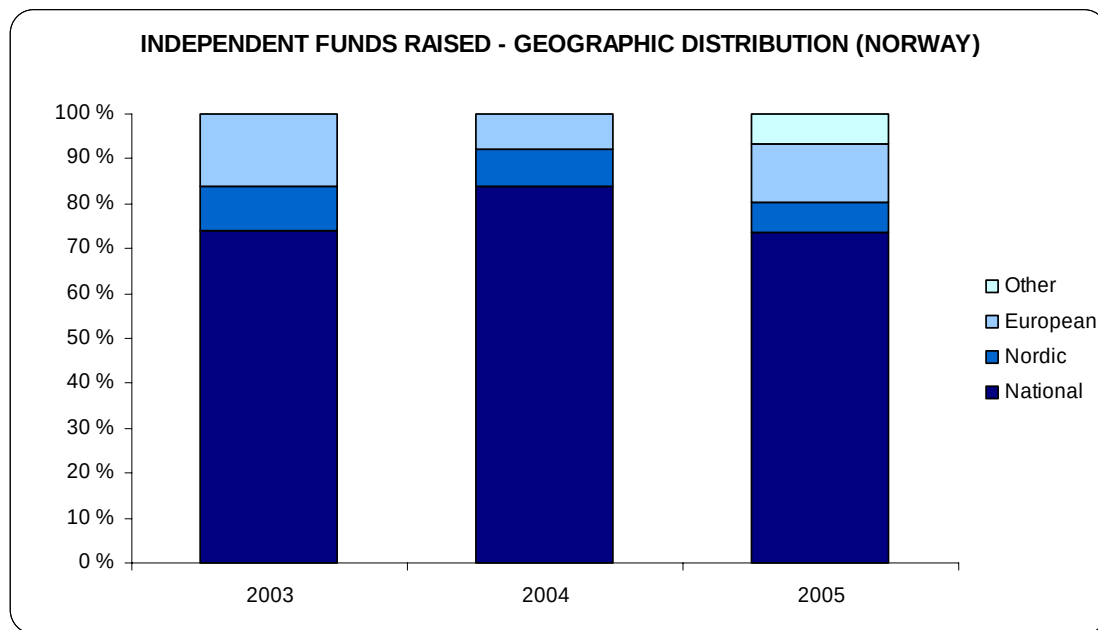


Figure 4.3-2: Independent funds raised - geographic distribution (Norway)¹

The vast majority of funds raised in Norway are raised from Norwegian sources.

The data for 2005 provides indication that Norwegian funds are starting to seek more international capital, also outside of Europe. According to NVCA Activity Reports (2005), Norwegian funds have seen a growth from 5% to 25% in the share of capital that is raised from international sources. The same report also states that Sweden has traditionally been, and still is, the finance center in the Nordic countries with up to 70-80% of risk capital raised from international sources. The development in Norway therefore indicates that Norwegian funds are becoming highly competitive in the international market.

¹ Numbers are snapshots per December 31st each year.

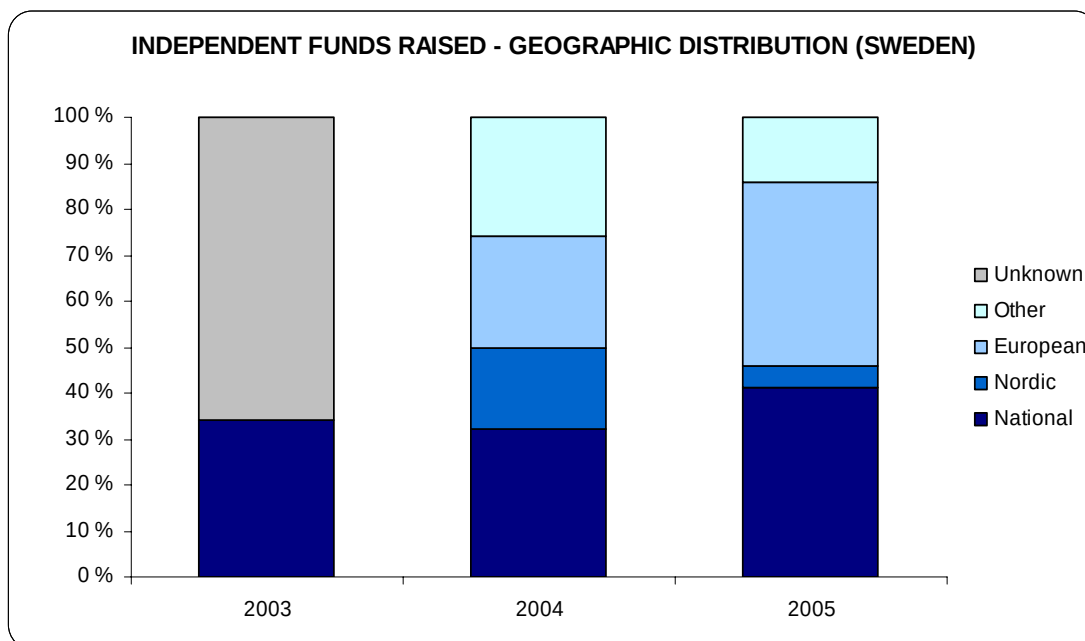


Figure 4.3-3: Independent funds raised - geographic distribution (Sweden)^{1, 2}

The majority of funds raised in Sweden are raised from outside the Nordic region. This is likely to be connected to buyout funds dominating the Swedish market (Figure 5.3-1). Buyout investments generally carry less risk, making it easier to attract capital, and are generally also larger, making it a necessity to seek capital outside of national borders.

The distribution between Nordic (including Sweden) countries and European/Other appears to be fairly stable over the entire period.

¹ The data for 2003 was incomplete. The unspecified amount has been classified as unknown in the above chart.

² Numbers are snapshots per December 31st for each year.

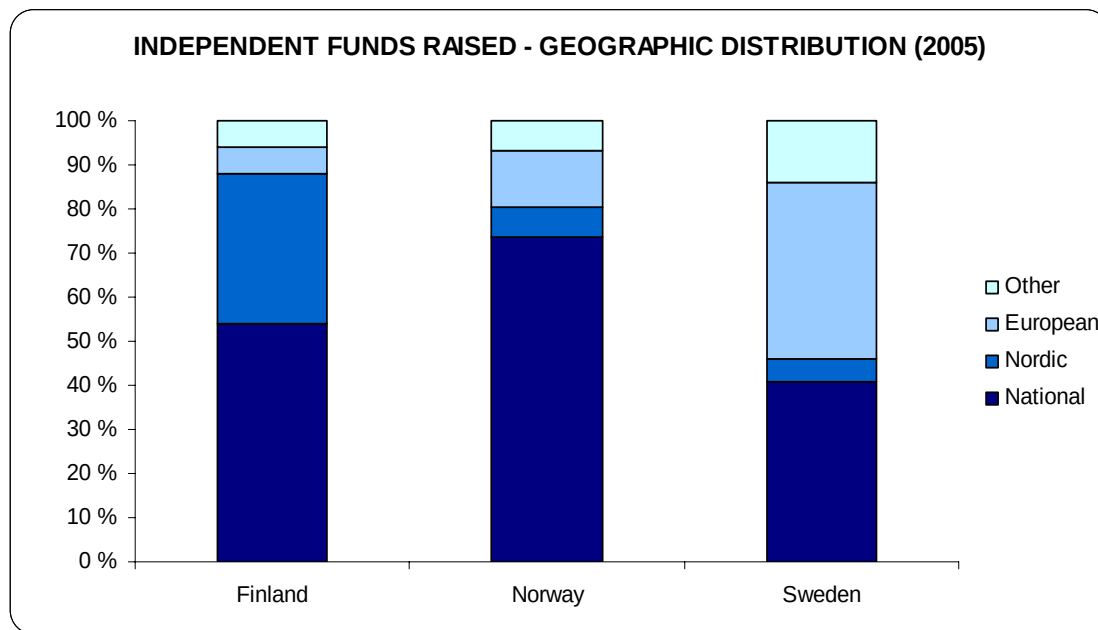


Figure 4.3-4: Independent funds raised - geographic distribution (2005)^{1, 2}

Sweden raised significantly more funds internationally compared to Finland and Norway. Finland raised 88% of its funds from the Nordic countries, where 54% were from national sources. Norway raised 82% from Nordic countries where 75% were from national sources.

Most of the international capital raised by Nordic funds is raised by buyout funds legally organized outside of the Nordic countries. In the Nordic countries there are still different kinds of obstacles for private equity funds to receive transnational investments.

The development charts from all countries shows that the relative proportions in this chart are fairly representative for the entire period.

¹ The data for Denmark was missing.

² Numbers are per December 31st 2005.

5 Investment

5.1 Number of investments

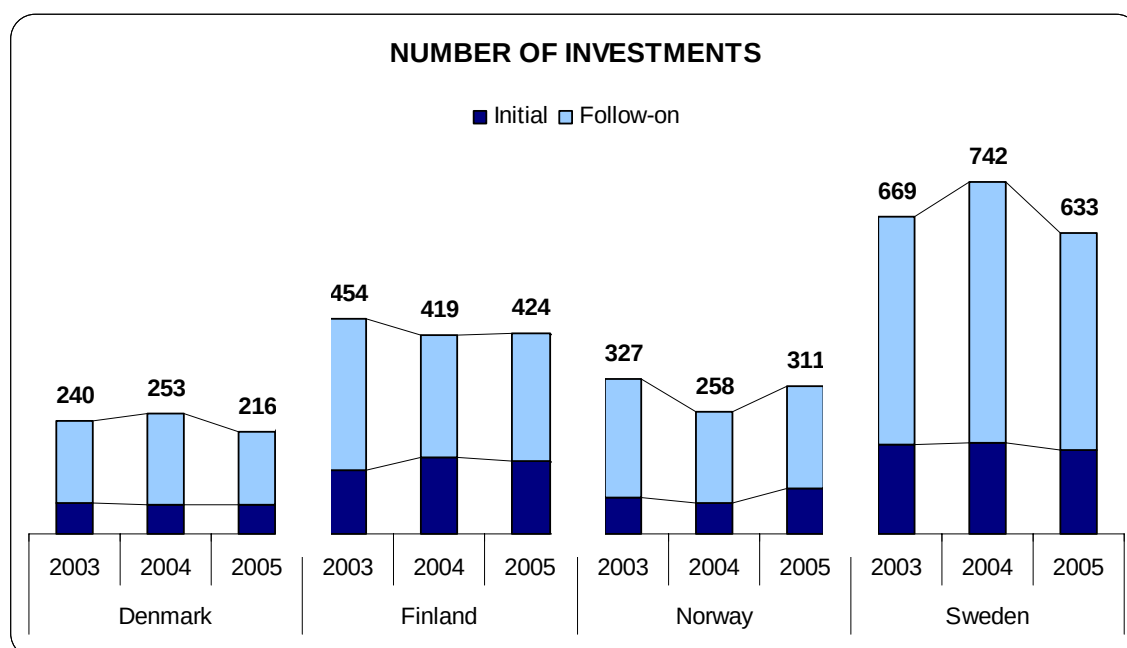


Figure 5.1-1: Number of investments^{1,2}

Sweden has the largest number of investments, but they are still not proportional to the amounts invested. This can be explained by the majority of investments being large buyout investments, which are generally much larger than earlier stage investments. While the number of investments in 2005 has dropped, the size of the investments across all phases has increased.³

Finland on the other hand has a fairly large number of investments compared to the total amount of capital invested (Figure 5.2-1).

Denmark and Norway experienced some fluctuations over the period, but there are no data available to explain these developments. In general, the amount of follow-on investments appears to be more unstable than the amount of initial investments. This also goes for Sweden and Finland.

¹ Numbers are snapshots per December 31st each year.

² The number of investments may include multiple investments in the same company.

³ SVCA Quarterly Report Q4 2005

5.2 Total amount invested

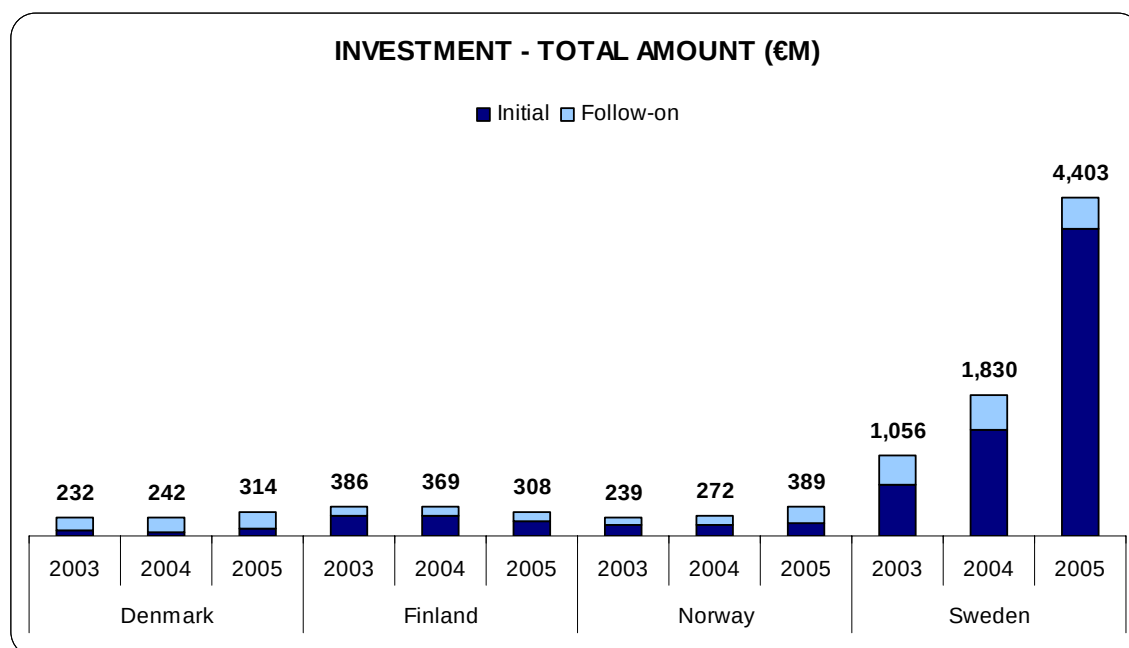


Figure 5.2-1: Total amount invested¹

Sweden heavily outperforms the other Nordic countries in the amount of risk capital invested, both in absolute amount and in growth.

Denmark has a considerably higher share of follow-on investments compared to initial investments. Finland is quite the opposite. Norway falls somewhere in between. Sweden has had a fairly constant amount invested in follow-on investments while it has experienced a drastic increase in initial investments. These differences are hard to explain based on the available data, possibly with the exception of the Swedish data which can be attributed to the major increase in buyout investment size (Figure 5.3-6), which rarely involves follow-on investments.

Investments, particularly in Sweden, are getting larger. There is a significant growth in the amount invested, while the overall number of investments is declining (Figure 5.1-1).

¹ Numbers are snapshots per December 31st each year.

5.3 Total amount invested by phase

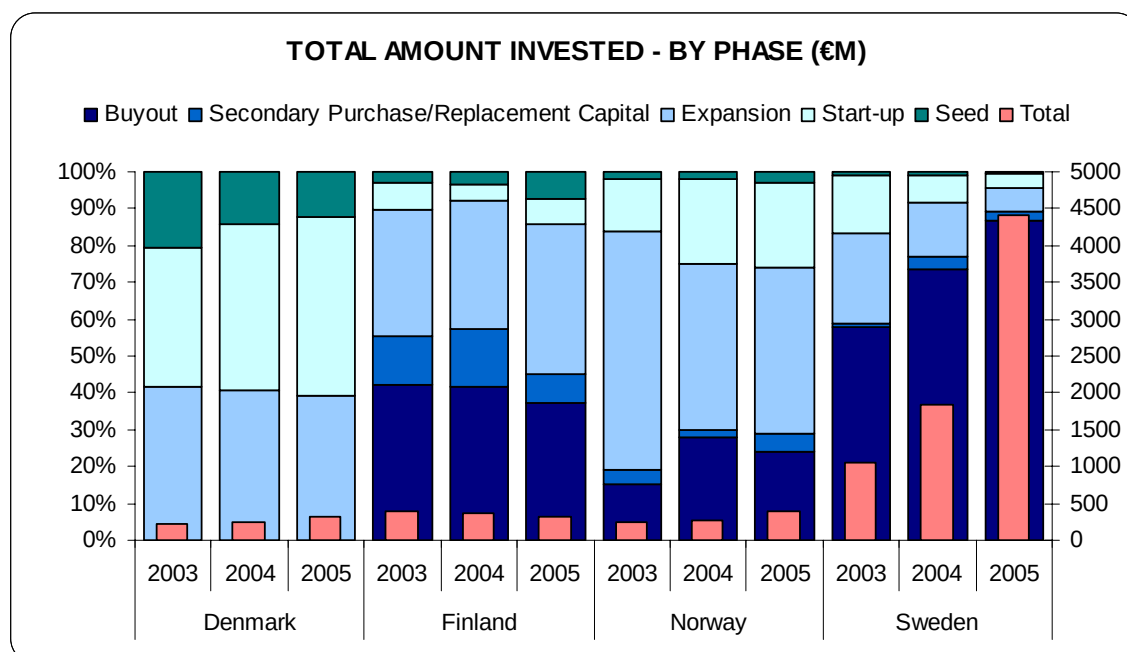


Figure 5.3-1: Total amount invested - by phase^{1, 2}

The orange bars show the total amount invested and follows the right hand scale. The bars in the background show the relative distribution between investments in different phases according to the left hand scale.

The breakdown of investment amount by phase provides some interesting insight into the Swedish numbers. Buyout investments not only dominates the Swedish industry (2003: 57.7%, 2004:73.3%, 2005:87.0%), but also experienced the largest growth in the 2003 to 2005 period (2004:120.1%, 2005:185.5%). This is discussed further under Figure 5.3-6.

If we exclude buyout investments Sweden is more in line with the other countries. Because of the huge differences in phases, the remainder of this section will compare the countries by phase.

¹ There has been a decline in the number of respondents that are willing to provide this data in Norway. The numbers are 100.0%, 93.0% and 76.6% for 2003, 2004 and 2005 respectively. There are no equivalent data available from the other countries.

² Numbers are snapshots per December 31st each year.

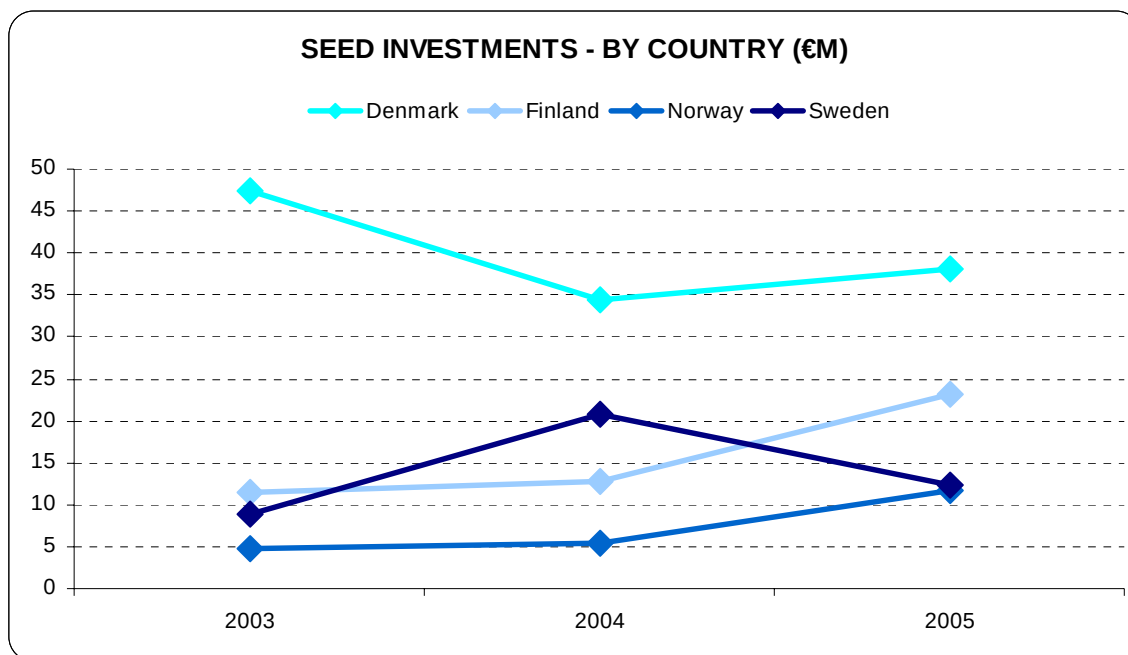


Figure 5.3-2: Total amount of seed investments^{1, 2}

Denmark stands out in seed investments, on investing about the same amount as the three other countries combined. This is despite Denmark having the lowest amount of total capital invested. (Figure 5.3-1)

The low number of data points and the fluctuation in the data makes it very hard to identify trends; however there appears to be a general positive development in 2005.

Finland, Norway and Sweden have during 2005 and 2006 established various forms of governmental support schemes in order to increase the capital available for seed-capital investments.

¹ There has been a decline in the number of respondents that are willing to provide this data in Norway. The numbers are 100.0%, 93.0% and 76.6% for 2003, 2004 and 2005 respectively. There are no equivalent data available from the other countries.

² Numbers are snapshots per December 31st each year.

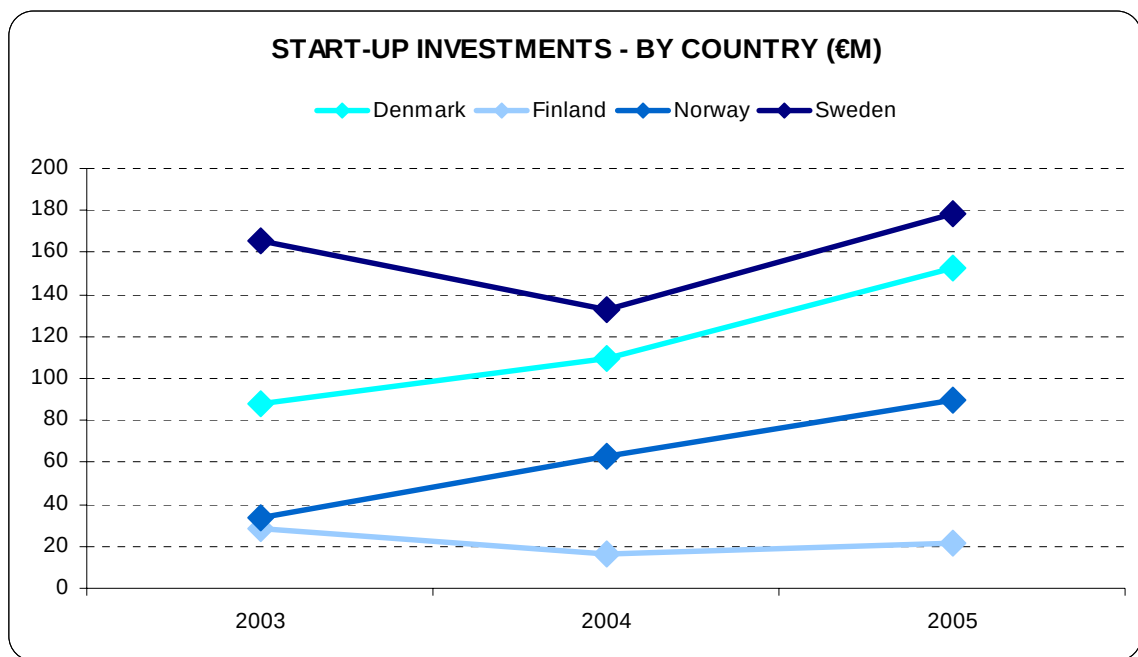


Figure 5.3-3: Total amount of start-up investments^{1, 2}

All countries except Finland experience an increase in start-up investments. The overall growth is largest for Denmark and Norway.

Denmark stands out in this comparison as they have the lowest total investment but still rank a strong second place in start-up investments.

¹ There has been a decline in the number of respondents that are willing to provide this data in Norway. The numbers are 100.0%, 93.0% and 76.6% for 2003, 2004 and 2005 respectively. There are no equivalent data available from the other countries.

² Numbers are snapshots per December 31st each year.

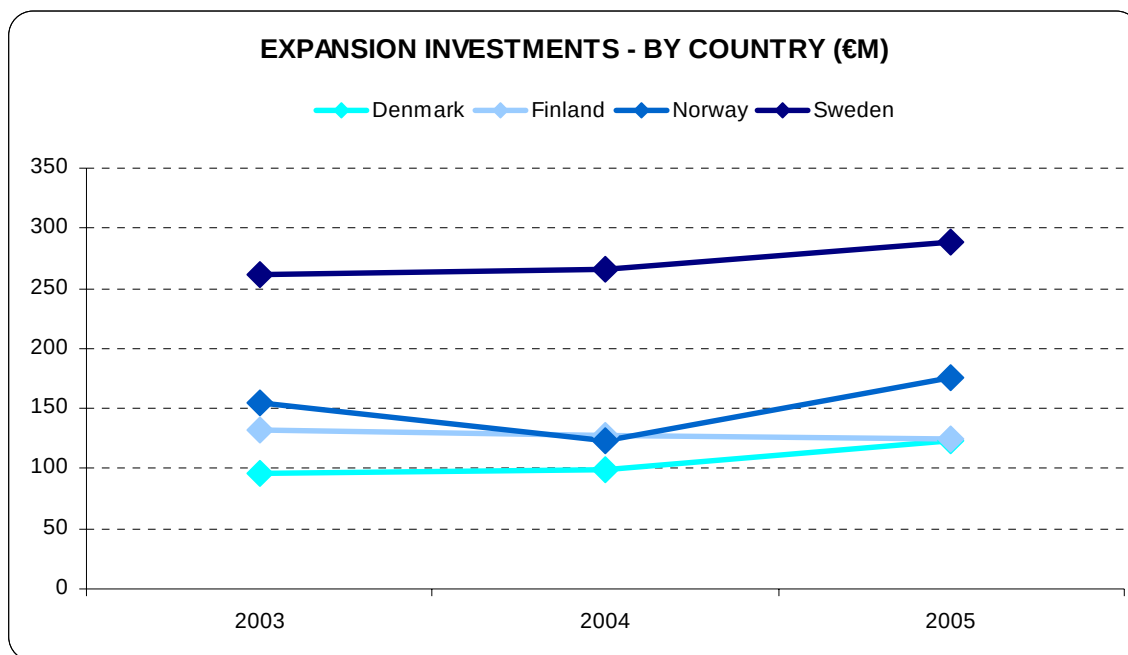


Figure 5.3-4: Total amount of expansion investments^{1, 2}

No significant development for either country in expansion investments.

¹ There has been a decline in the number of respondents that are willing to provide this data in Norway. The numbers are 100.0%, 93.0% and 76.6% for 2003, 2004 and 2005 respectively. There are no equivalent data available from the other countries.

² Numbers are snapshots per December 31st each year.

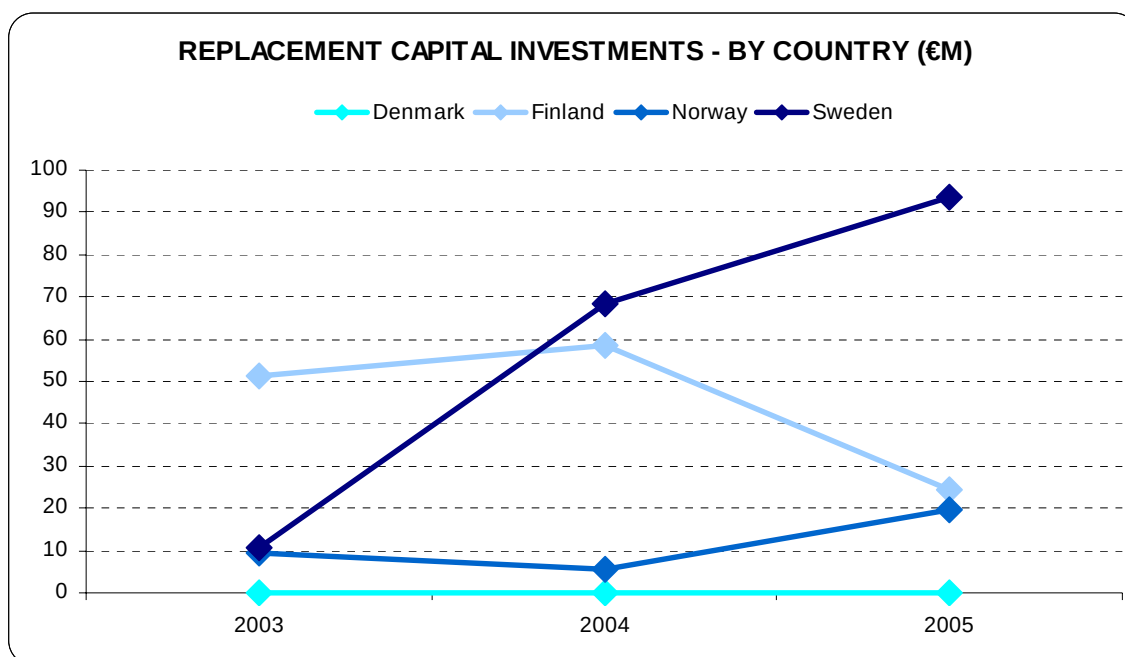


Figure 5.3-5: Total amount of replacement capital investments^{1, 2}

In the replacement capital phase Sweden has experienced significant growth (192.4% p.a.) over the period and obtained a clear edge over the other countries.

The trends for Finland and Norway are unstable and it is difficult to draw any conclusions on this data. Denmark has reported zero investments in this phase over the entire period.³

¹ There has been a decline in the number of respondents that are willing to provide this data in Norway. The numbers are 100.0%, 93.0% and 76.6% for 2003, 2004 and 2005 respectively. There are no equivalent data available from the other countries.

² Numbers are snapshots per December 31st each year.

³ Denmark has zero investments in both replacement capital and buyouts. While no comments were made about this in the data material, it is likely to assume that these data were not included in the Danish surveys.

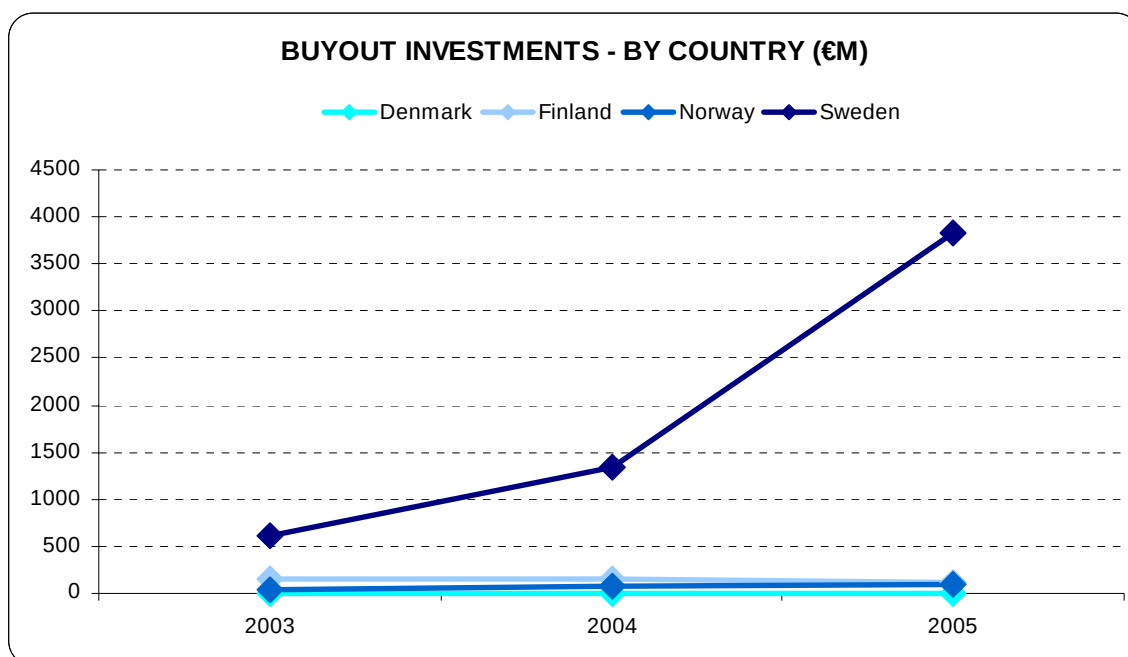


Figure 5.3-6: Total amount of buyout investments^{1, 2, 3}

Sweden has experienced a significant increase in buyout investments in 2005, accounting for 87% of the total investments in Sweden (Figure 5.3-1). This can be explained by a single buyout fund raising €2 507 million, 75.7% of the total amount of independent funds, in 2004. (SVCA Quarterly report Q4 2004) The funds raised in 2005 are slightly lower than the 2003 levels (Figure 4.1-1), and one can therefore expect a drop in 2006 back to 2004 levels.

Even discounting this extraordinary fund, Sweden still has a significantly larger buyout funds than its Nordic neighbors. Norway experienced an annual growth of 26.6% from 2003 to 2005 and has initiated schemes in 2005 in order to further increase the size of the Norwegian buyout fund industry. They may therefore become a serious player in this market in the near future. Finland on the other hand experienced a decline of 15.7% annually from 2003 to 2005.

¹ There has been a decline in the number of respondents that are willing to provide this data in Norway. The numbers are 100.0%, 93.0% and 76.6% for 2003, 2004 and 2005 respectively. There are no equivalent data available from the other countries.

² Denmark has zero investments in both replacement capital and buyouts. While no comments were made about this in the data material, it is likely to assume that these data were not included in the Danish surveys.

³ Numbers are snapshots per December 31st each year.

5.4 Investment industry distribution

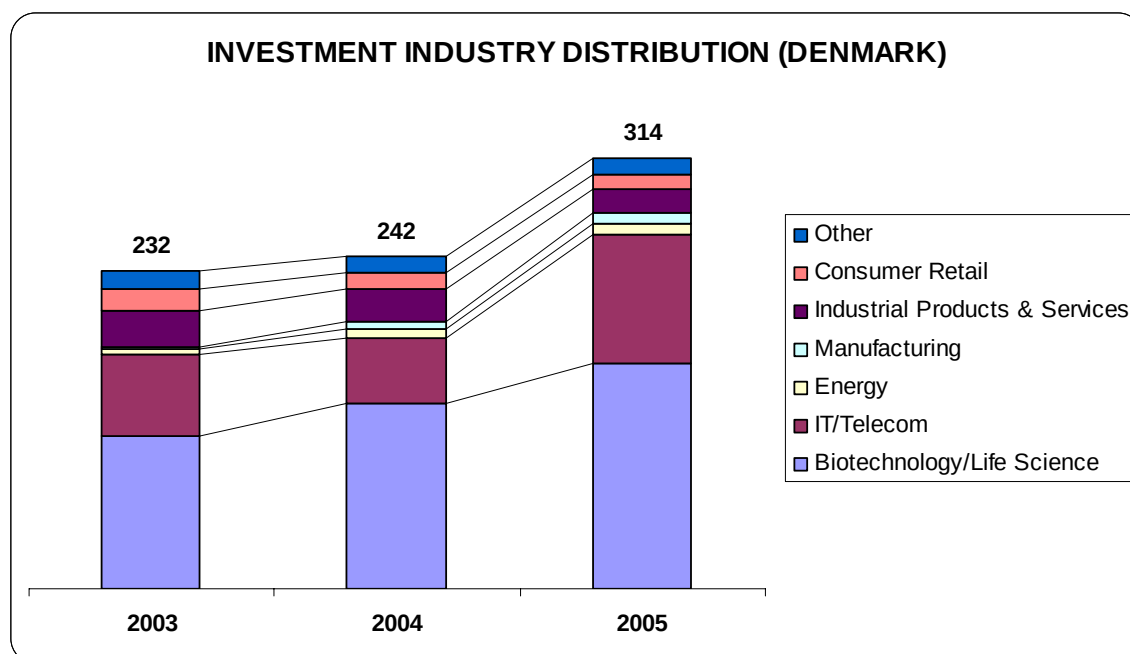


Figure 5.4-1: Investment industry distribution (Denmark)¹

Denmark has a high focus on the biotechnology and life science industry, claiming about 50% of the invested capital. IT and telecom is the second largest sectors. After a significant growth (97.1%) in 2005, these two top sectors represent 82.3% of the total market, making the Danish market a more specialized market than those of its Nordic neighbors.

Biotechnology investments are characterized by a long development phase, which may help to explain the dominance of early phase investments in the Danish market. (Figure 5.3-1)

¹ Numbers are snapshots per December 31st each year.

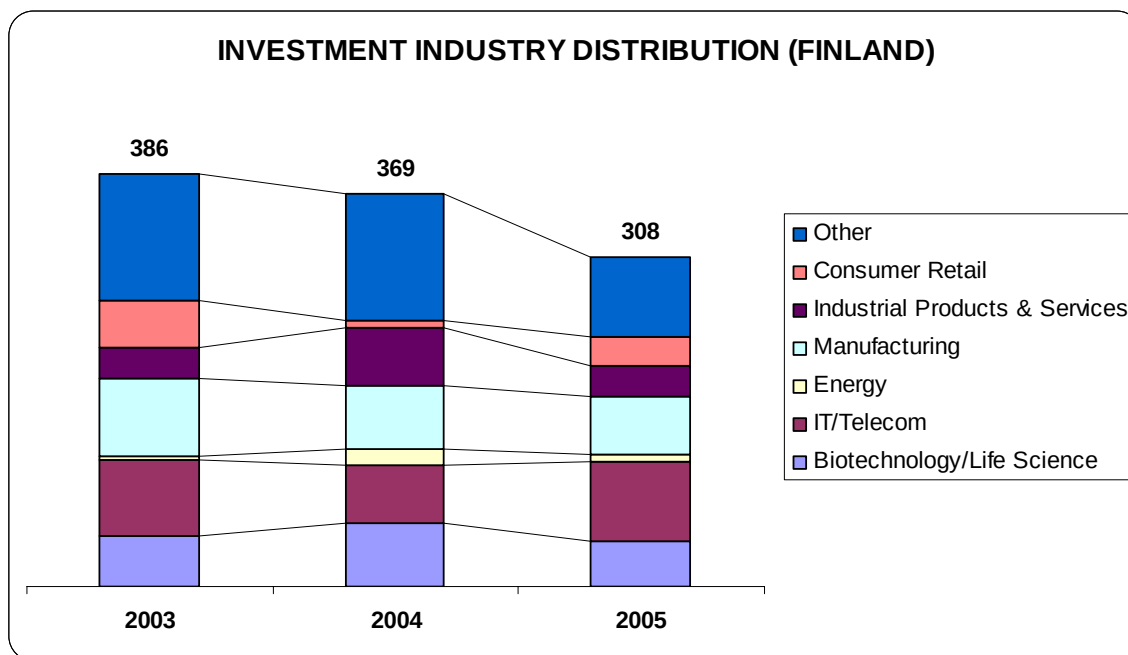


Figure 5.4-2: Investment industry distribution (Finland)¹

Finland has a fairly stable industry distribution across the period. There is an overall decline in the total amount invested (4.5% drop in 2004, 16.5% drop in 2005). The majority of this drop is in the other category. A breakdown of this category could therefore help to explain this trend.

¹ Numbers are snapshots per December 31st each year.

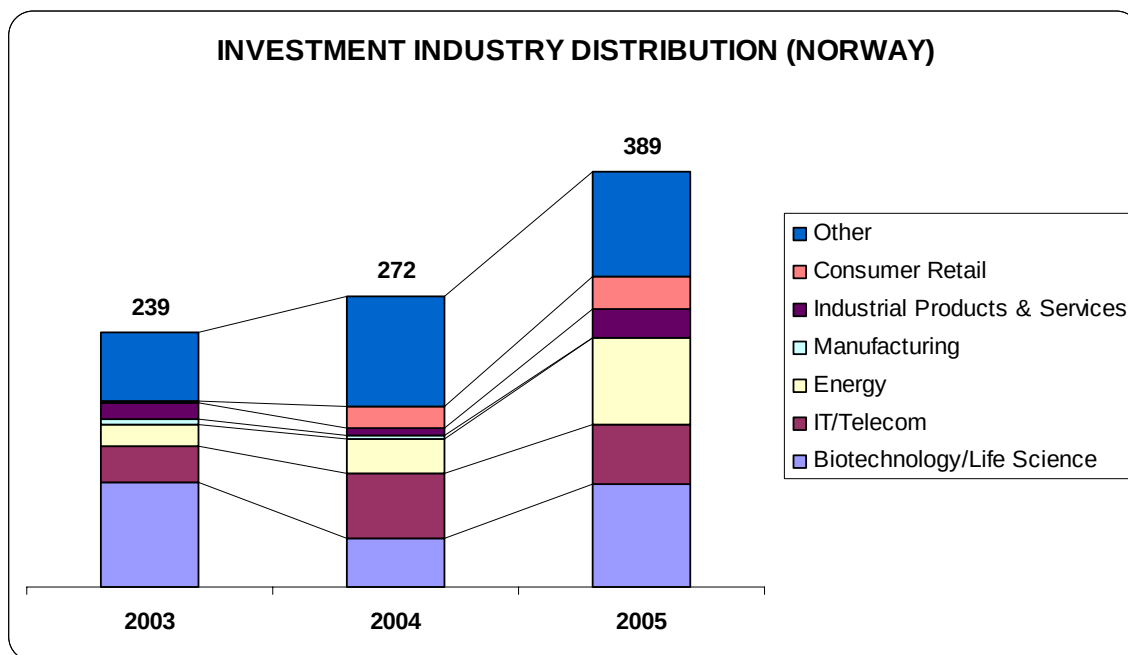


Figure 5.4-3: Investment industry distribution (Norway)¹

The overall trend in Norway is positive, growing 13.8% in 2004 and 43.0% in 2005. Consumer retail (1201.6%) and energy (279.7%) were the sectors that experienced the largest overall growth. Manufacturing has dropped 100% and has almost disappeared. The remaining sectors grew proportional to the overall growth.

¹ Numbers are snapshots per December 31st each year.

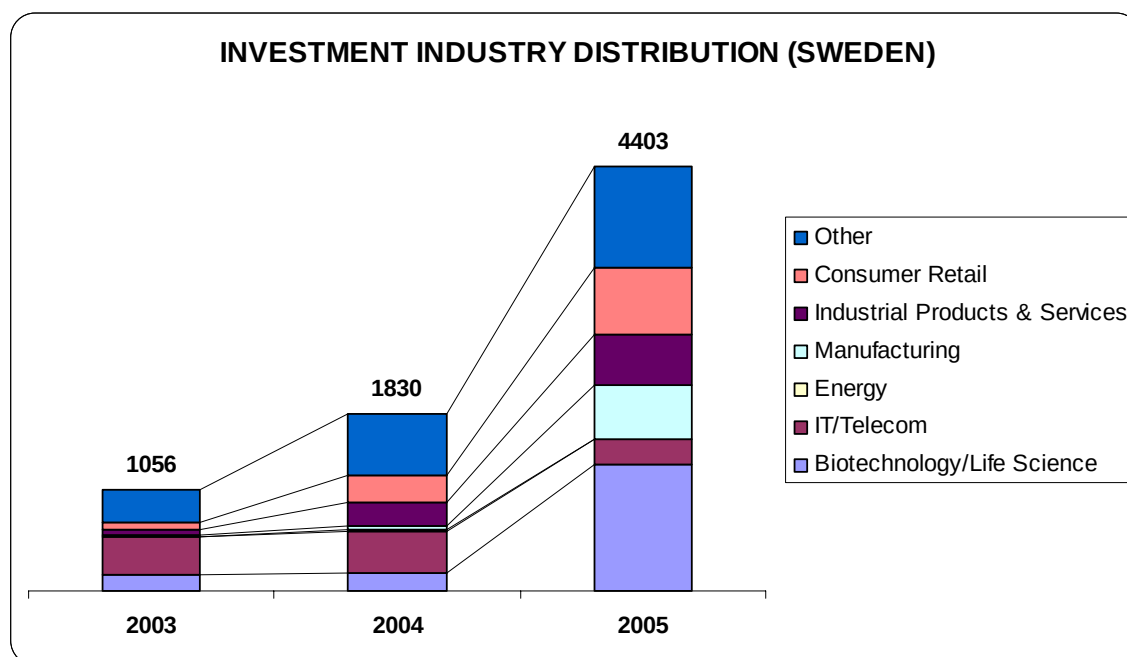


Figure 5.4-4: Investment industry distribution (Sweden)¹

Sweden has had an explosive growth from 2003 to 2005 (73.3% in 2004 and 140.6% in 2005). Manufacturing is responsible for the largest share of the growth at 3235.3%. Biotechnology & life sciences (690.2%), industrial products (749.2%) and consumer retail (903.2%) also grew above index. IT & telecom (-31.1%) and energy (-76.0%) experienced an absolute decline, which is quite extraordinary given the huge overall growth and the fact that these industries are growing in the other Nordic countries.

¹ Numbers are snapshots per December 31st each year.

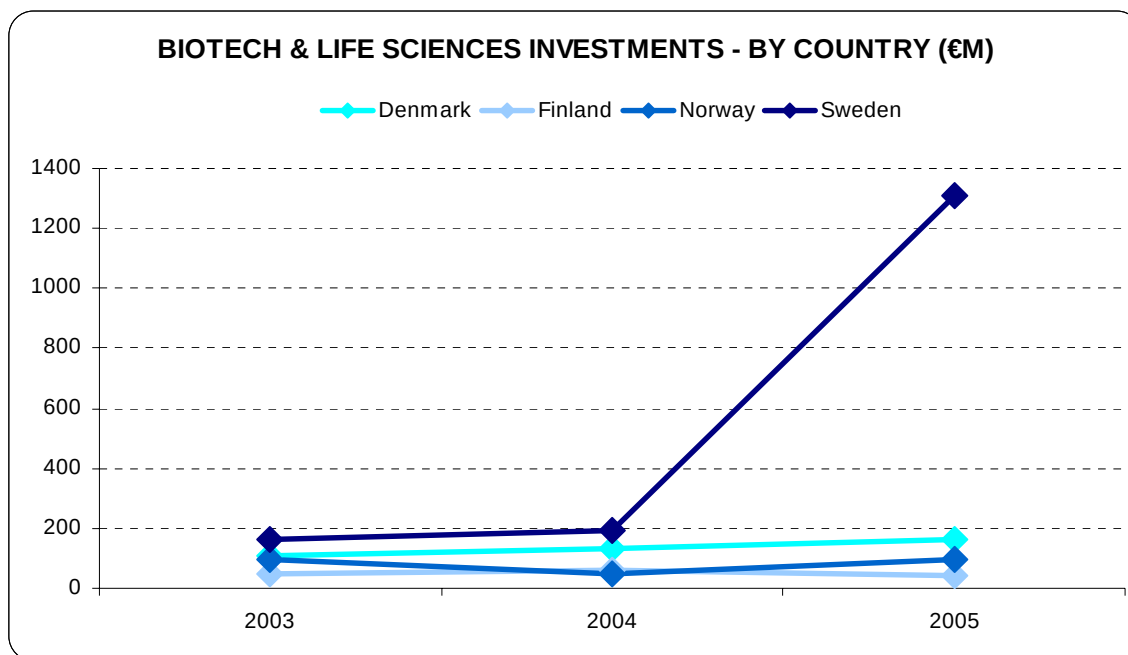


Figure 5.4-5: Biotech & life sciences investments by country¹

Biotech and life sciences, as an industry, separates itself in this study for two reasons. First it accounts for more than 50% of the investments performed in Denmark. Secondly investments in this industry in Sweden grew by a factor of 6 (581.3%), and had by far the largest absolute growth, in 2005.

¹ Numbers are snapshots per December 31st each year.

6 Investment as percentage of GDP

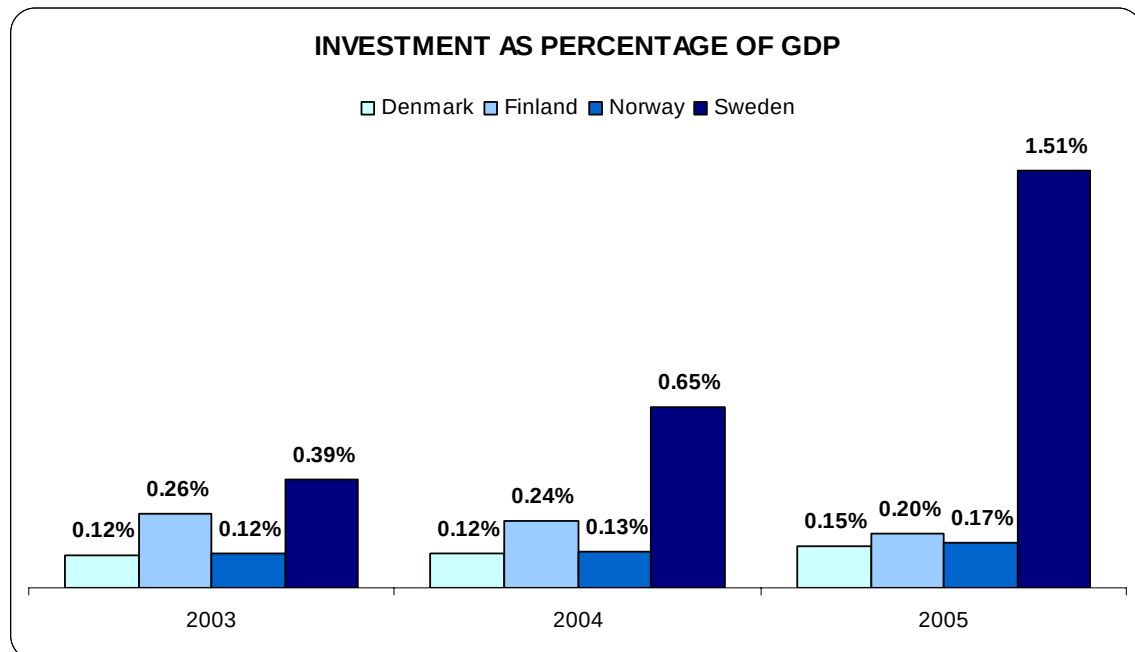


Figure 5.4-1: Investment as percentage of GDP¹

A GDP analysis is interesting because it discounts differences in population across countries, and general economic growth.

Sweden clearly has the largest risk capital industry of the Nordic countries. Even discounting the abnormal growth experienced in 2005, as discussed in chapter 5.3 (Figure 5.3-6), Sweden come out on top. Sweden also experienced the largest growth with 66.7% in 2004 and 132.3% in 2005.

Finland has the second largest industry throughout the entire period. However, it exhibits a declining trend with a 7.7% drop in 2004 and a further 16.7% drop in 2005. This trend increase the gap between Sweden and the other Nordic countries further, and if it continues Finland risk losing its position.

Both Denmark and Norway display a positive trend. While the Danish and Norwegian industries were about equal in 2003, Norway has gained a slight edge in 2005. The average annual growth has been 11.8% and 19.0% for Denmark and Norway respectively.

¹ Numbers are snapshots per December 31st each year.

7 Divestment

7.1 Total number of divestments by method

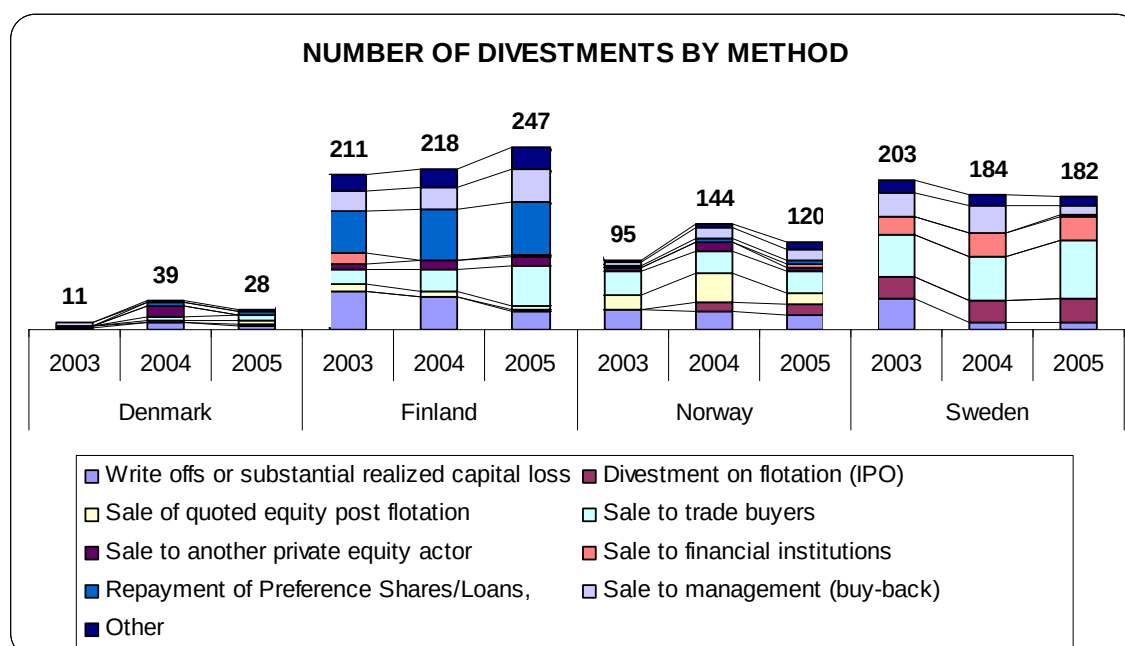


Figure 7.1-1: Number of divestments by method¹²

Finland has a very large number of divestments compared to the number of new investments made (Figure 5.1-1). Approximately 60% of the of these divestments are write offs, repayment of preference shares and buy backs, which means that there are more deals that are terminated prior to successful completion in Finland than in the other countries. In Denmark the number is around 40%, for Norway it is 30% and Sweden has reduced the number from 36% in 2003 to only 14% in 2005.

Norway has a significantly larger amount of divestments post floatation than the other countries.

¹ Numbers are snapshots per December 31st each year.

² The number of divestments may include multiple divestments of the same company.

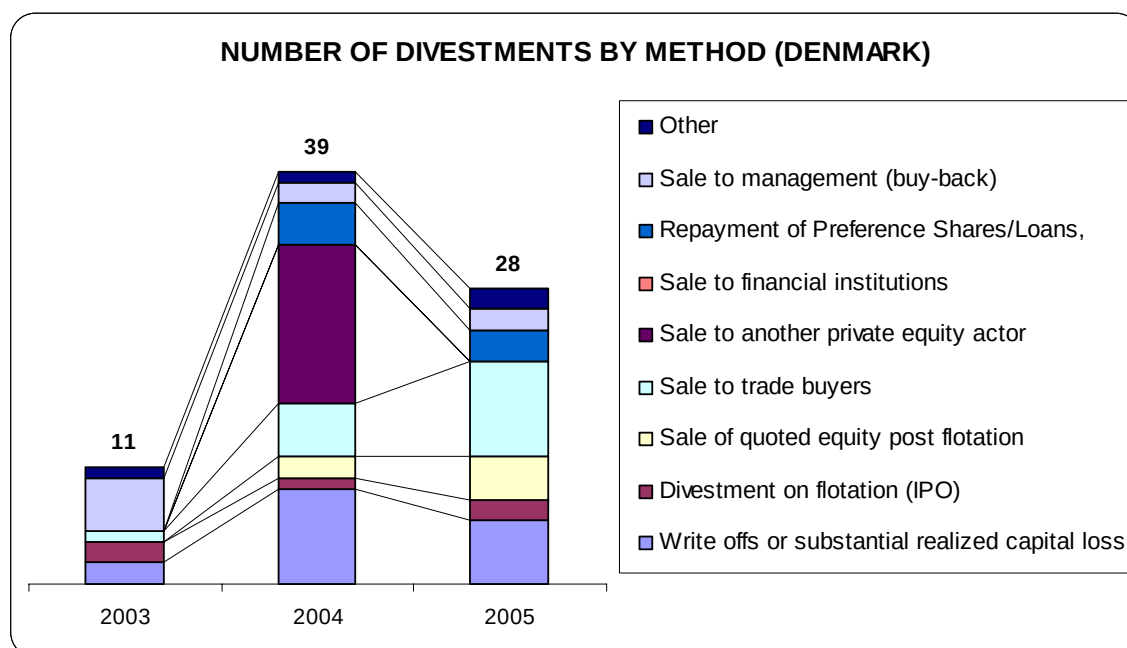


Figure 7.1-2: Number of divestments by method (Denmark)¹

Denmark has very few divestments. Probably due to a heavy focus on the biotech industry which has a very long time span on investments. The amount of write offs are about 20% of the total and is fairly constant throughout the period. The dominant methods of divestment are sale to trade buyers and sale post flotation.

In 2004 there were a large number of sales to other private equity actors. This method of divestment is almost nonexistent in 2003 and 2005.

¹ Numbers are snapshots per December 31st each year.

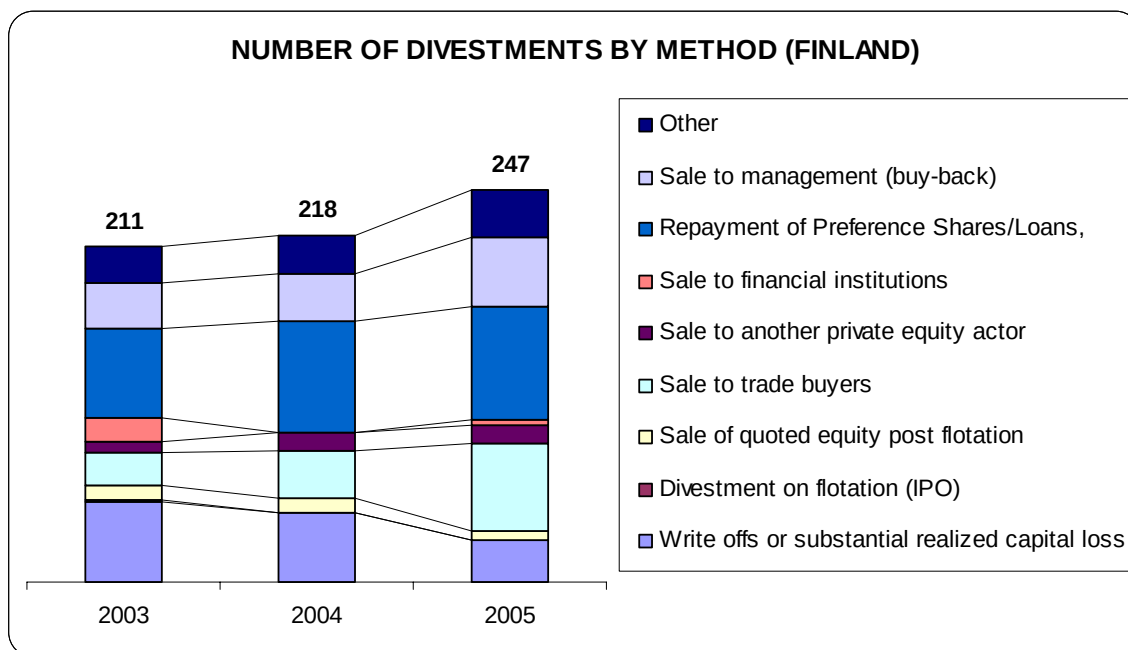


Figure 7.1-3: Number of divestments by method (Finland)¹

Finland has a very high amount of divestments by repayment of preference shares. Buy-backs to management are also fairly large. This indicates an early termination of investments.

The dominant method of divestment for successful investments is trade sale (10% in 2003, 14% in 2004 and 22% in 2005).

The number of write offs is also significantly reduced despite an increase in the number of divestments. This is positive for the industry.

¹ Numbers are snapshots per December 31st each year.

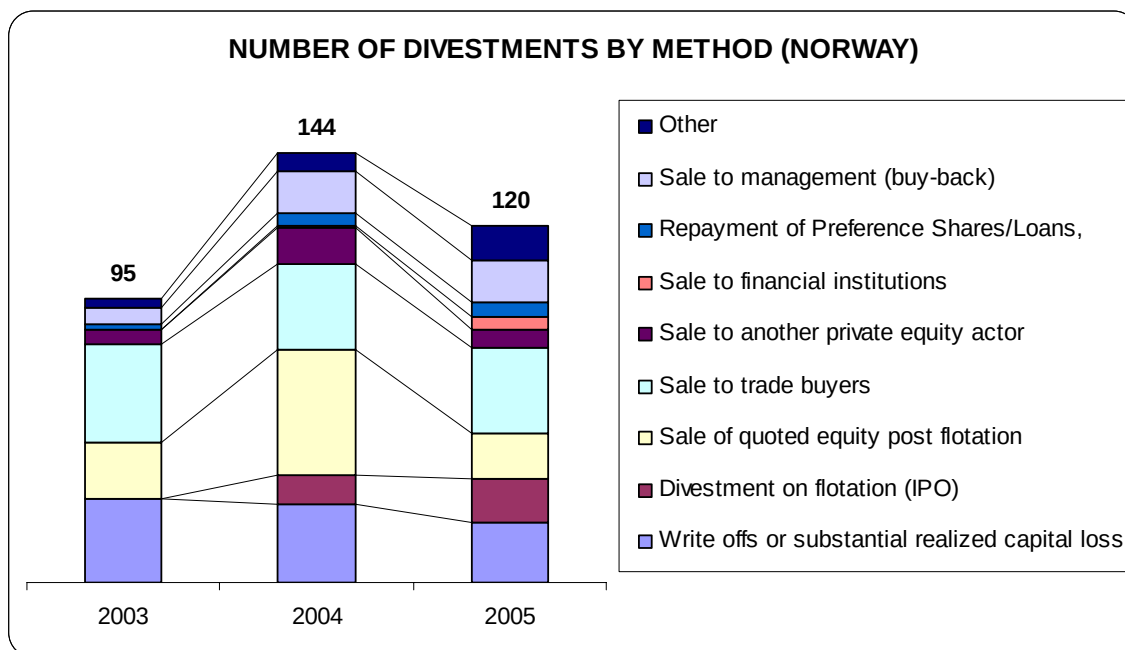


Figure 7.1-4: Number of divestments by method (Norway)¹

The dominant methods of divestment in Norway are sales to trade buyers or sales post flotation. There was an exceptionally high amount of sales post flotation in 2004. Divestments on flotation are also increasing.

The number of write offs are declining both absolutely and relatively to the total amount of divestments.

¹ Numbers are snapshots per December 31st each year.

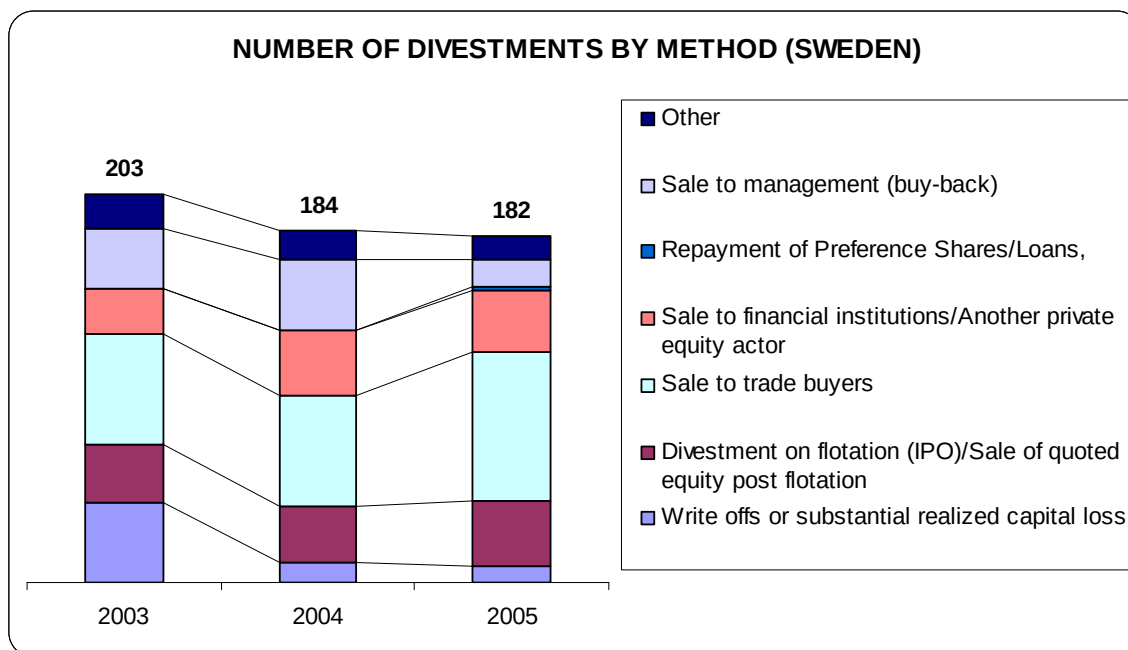


Figure 7.1-5: Number of divestments by method (Sweden)^{1, 2}

The dominant method of divestment in Sweden is sale to trade buyers (28.6% in 2003, 31.5% in 2004 and 42.9% in 2005). There has been a slight decline in the number of divestments over the period.

Financial sales and divestment by IPO are also common.

Sweden has very few early terminations of investments and write offs compared to the other Nordic countries. This can partly be explained by the fact that Sweden has more late-stage investments than its peers, which have lower risk of early termination. However, Sweden also has a very low number of early termination divestments compared to the number of early stage investments, which indicates that the Swedish private equity industry in general performs better than the private equity industry in the other Nordic countries.

¹ The Swedish categories are slightly different from those of the other countries because certain data was not separated in the surveys. This relates to financial sales/other private equity sales and present/post IPO divestments.

² Numbers are snapshots per December 31st each year.

8 Conclusion

Overall the Nordic private equity industry is experiencing a positive trend. The total amount of capital available is increasing, and the Nordic countries are starting to attract international capital. There is also increased investment activity in the early phases, which is positive for innovation and entrepreneurship activity.

Sweden is the leading Nordic country in this industry, both in size and in rate of growth. The majority of this can be attributed to an exceptionally large buyout-fund industry, but they are also leading on investments in most of the other phases. Sweden is also still the finance centre of the Nordic countries, thus attracting significantly more international capital than its neighbors.

Most of the capital raised by Nordic funds is raised by buyout funds legally organized outside of the Nordic countries. In the Nordic countries there are still different kinds of obstacles for private equity funds to receive transnational investments. This is still an important problem especially for smaller growing venture capital funds.

This analysis brings up several interesting issues. There are many noteworthy similarities, differences and trends that clearly can provide great insight if studied in more detail. It is therefore highly recommended that the Nordic venture capital and private equity associations coordinate their efforts to provide a more thorough data foundation for future studies. Some of the topics of interest include cross-border investments versus cross-border fundraising, trends of capital available for investments and the relationship between number of investments and the size of investments.

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Nordic Innovation Centre

Nordic Innovation Centre

The Nordic Innovation Centre initiates and finances activities that enhance innovation collaboration and develop and maintain a smoothly functioning market in the Nordic region.

The Centre works primarily with small and medium-sized companies (SMEs) in the Nordic countries. Other important partners are those most closely involved with innovation and market surveillance, such as industrial organisations and interest groups, research institutions and public authorities.

The Nordic Innovation Centre is an institution under the Nordic Council of Ministers. Its secretariat is in Oslo.

For more information: www.nordicinnovation.net