Value creation by private equity firms in Sweden

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Abstract

The private equity industry had its origin in the US and refers to venture capital firms that invest in un-listed companies, so-called portfolio companies, where the investor holds an active and time-limited ownership. In Sweden, private equity investments have become a frequent form of capital procurement of contractors and companies in recent years. Sweden is among the largest private equity markets in EU and has been managed to raise principal amount of funds in between Nordic countries.

The thesis has been built up through both qualitative and quantitative methods for more in depth examination of the advantages of private equity firms between 2003 to 2010, and to study which work-process private equity firms as Altor, EQT, FSN, Nordic Capital, Ratos and Capman use to achieve their expectation on creating long-lasting value in the companies that they invested in. Furthermore, the result of the thesis shows that a combination of several activities such as; active ownership, cost reduction programs, and developing the business globally, taken by private equity firms can lead to an increase in value of the portfolio companies.
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I Introduction

The introduction chapter begins with a description of the topic and background of the subject. The background will then be followed up by the problem discussion and problem formulation, which leads to the purpose of the investigation. Finally the chapter will end up with previous research.

1.1 Background

Private equity investments have become a frequent form of capital procurement of contractors and companies in recent years. These forms of investments are done in un-listed companies where the investor holds an active and time-limited ownership. According to the Swedish private equity and venture capital association (SVCA), Sweden is the fifth largest equity market in the world after the US, UK, Switzerland and France in terms of investment value of buyouts (SVCA, 2012). Moreover, Sweden is considered to be the best established market for private equity in the Nordic region, and has managed to rise principal amounts of funds in the Nordic countries and continued to drive the Nordic fundraising market, accounted for 41 percent of the total for the Nordic region in 2009 (SVCA, 2009).

Venture capital (VC) industry was grounded by the founding of a venture capital firm called American Research Development Corporation (ARDC) in 1946. ARDC is often referred to as the “Birth of venture capital” in the U.S, but the private equity industry did not begin to fully develop until the 1970s (Temple, 2003).

Kaplan and Stein (1994) stated in their article about management buyouts that the success of the first buyout of RJR Nabisco by Kohlberg Kravis Roberts (KKR), an American-based private equity firm that specialized in leverage buyouts, affected the market in a positive way. Due to this, an overall increase of the willingness to perform buyouts among investors emerged. The increase of investors led to higher prices and economical balance. The Market for capital-funded investments in Sweden began to flourish in the late 1990’s even though the first private equity wave swept over Sweden several decades before (Kaplan & Stien, 1994). This delay is mainly explained by the stock market crisis in 1987, which caused a significant downturn in the private equity industry (SVCA, 2012). Other factors contributing to the fall of venture capital in the late 1980’s are over investments and the entry of unqualified venture capitalists. The increased use of junk bonds which permitted a higher debt-to-equity ratio with
a lower security level led to an increase in buyout prices (Lerner, Hardymon, & Leamon, 2009). Furthermore, using junk bonds and higher debt-to-equity ratio caused the failure of the buyout market and a debt reduction method for the private equity firms which faced unexpected debt for their portfolio companies (Kaplan & Stien, 1994).

The Swedish private equity market emerged as the most active equity market in terms of investment per capita in the second half of the 1990’s and in the beginning of 2000. According to statistics from European Venture Capital Association (EVCA), the Swedish venture capital industry constituted 13 percent (€ 3.7 billion) of the total capital raised for private equity funds in Europe. Figure 1 illustrates that the Swedish venture capital market became relatively stable in the late 1990’s. Before that, the market for venture capital did not seem to be completely developed. It has been stabilized in a high level in terms of capital, which can be interpreted as a functioning market.

![Development of the Swedish venture capital market](image)

**Figure 1 Source Isaksson 2006**

In 2006, the Swedish private equity industry accounted for 1.44 percent of BNP, which was the highest level in Europe at the time (SVCA, 2007). During the period 2007-2010, PE investments decreased rapidly in Sweden. Venture and buyout investment levels in 2009 were much lower than those of 2007. The recovery of the buyout investments in 2010 increased Swedish economy by 26.4 BSEK, which was counted as a record level for the industry since 2006. However, the venture investment industry remained unchanged.

Both the venture capital and the buyout industry were major suppliers of capital in the Swedish market during the financial crisis of 2008-2010. More than 9500 companies have
been supported by private equity and venture capital firms in 2009, and more than 80 percent of these were Small Medium Enterprise (SME) firms (EVCA 2010). There are three different private equity categories, Business Angels, Venture Capital and Buy-out firms. A business angel is an individual that invest in early stage companies and contributes with business knowledge to the unlisted companies with growth potential. Venture capital means investments in small and medium-sized growth companies that are in the seed, start-up or expansion phase. The portfolio firms in need of venture capital investments often have negative or weak cash flows and they are frequently in need of development to move forward. Buyout refers to investments in mature companies, typically with a strong cash flow (NUTEK, 2006). The three possible structures of a private equity firm are illustrated in figure 2.

![Figure 2 SVCA (2012)](image)

According to EVCAs annual report (2010) private equity investments in Europe have increased by almost 77 percent in 2010 compared to those of 2009. The profit of the investments in 2010 is accounted to approximately EUR 42 bn. The conditions of European private equity and venture capital investments are described in figure 3. In addition, more than 80 percent of the assets acquired in recent years came from foreign investors (EVCA, 2010).

![Figure 3. Source EVCA/ PEREP, Analytics](image)
1.2 Problem discussion

According to Lerner et al. (2009), non-listed Swedish companies have limited opportunities to acquire the capital they need for continues development. Difficulties of rising capital are not only a problem for start-up companies, older and larger unlisted companies can also find it difficult to raise new capital. Allowing for an entry of private equity firms results in better accessibility of capital for non-listed companies.

Fundamentally described, the private equity firms have generated higher returns than listed companies with a larger systematic and market risk (SVCA 2012). Therefore, it has been an attractive investment option for many investors.

The problem that we are going to discuss is:

- How do private equity firms create value in Sweden?

1.3 Purpose

The purpose of this thesis is to study and discuss how private equity firms create value in the Swedish companies that they invest in. The study will be based on interviews and publicly available information such as annual reports and available information of randomly selected portfolio companies. The authors plan to provide a discussion of the private equity industry in Sweden.

1.4 Delimitations

The study intends to examine the value creation made by private equity firms that are operating on the Swedish market. Main focus lies on Swedish portfolio companies acquired through a buyout during the time period of 2003 and 2010.

1.5 Previous research

Although the PE investment has been popular among investors, there is no clear object that can be set as the basis of the value creating model. Studies and measurements of what PE firms do in their portfolio companies in order to increase value are scarce. There are many factors that can lead to an increasing value in the portfolio companies, but they are difficult to identify. As Lerner et al (2009) argues, it is important to consider the level of factors that affect private equity in the long run, not only the short-run effect which is the competition between companies to increase their values. The primary goal of private equity investors is value creation in their portfolio companies by offering them capital, networks, management
skills, strategic advice and information in every stage of their development. Selecting a company with growth potential is one of the major skills of private equity manager behind a successful deal. Moreover, investors can create value in their portfolio companies by spending more time in the companies in an early stage of the investment (Fredriksen, 2003).

From previous research reports about what the private equity firms contributes with to their portfolio companies besides capital, one can see that active ownership is the most important aspect behind a successful deal. The study conducted by Heel and Kehoe (2005) was about the meaning of active ownership. It showed that outperformance by portfolio companies in comparison to the industry is the principal way in which the private equity firms can create value. Moreover, the study showed that the correlation between five steps taken by private equity firms can lead to a better performance of the portfolio company than that of others in the industry. First, successful investors try to find expertise and good knowledge in the company before the investment. Secondly, both investors and the portfolio company’s management together bring significant and focused performance. Furthermore, the partners make a satisfactory management plan and develop it for a better result in the company. Fourth, the efficient managers spend more time by having meetings in the company in the beginning of the investment. Finally the last stage is that if the investors want to change any part of the company, they have to do it in the very beginning of the process.

The study conducted by Macmillan, Zemann, & Subbanarasimha (1987) followed up one of their previous studies about the venture capital practices and criteria used by venture capitalists when they evaluate venture proposals (Macmillan et. al 1985). The purpose of this study was to determine to what extent the criteria identified in previous studies are useful when predicting the outcome of private equity investments. Some of the criteria are experience, or lack of it, qualified management, degree of acceptance of the product on the market, competitive advantage and strength to maintain them. With help of these criteria the investors were asked to rank different investments from very successful to very unsuccessful. The result of the survey showed that unsuccessful investments are often based on lack of experience and poor ability to create competitive advantage. Even for those who manage to enter the market, there are clear weaknesses to protect the product and not lose the market share. The successful investments were characterized by well-qualified managers that have managed to break into the market and then maintain their market shares without being exposed of intrusion.
Elango, Fried, Hisrich, & Polonchek (1995) tried to find possible sources of diversity between different companies and how they may affect the result. The authors identify four factors that are considered to form those sources. First, which development phase is the portfolio company in at the investment time? Then, what can the investment firm offer to the portfolio company? Furthermore, the different size of private equity firms and finally geographical differences. Elango et al found that companies investing in the early stage, which is not profitable for the portfolio companies, can lead to poor result. Larger firms tend to invest in later stages of the portfolio companies development, when considering differences of the size of the private equity firms. Finally they point out that there are different factors like; contact, knowledge and quality of aid that can lead to an increased value in the company (Elango et al, 1995).

Fredriksen Ö, Olofsson C, and Wahlbin C (1997) investigated the private equity firms influence over their portfolio companies, the development of the companies after acquisition, and the result of their cooperation. Moreover, the researchers found that it is not the capital, but value creation activities that are seen as the most important factor in the company’s development. The authors concluded that the investors are contributing to an increased value through non-economic nature. Further in their investigation they conclude that there is no clear relationship between investors influence and the development of the portfolio company. The authors of the article suggest that this may either be due to the limited time horizon, or that the private equity firms have their main focus on the portfolio companies with a problem and they will allocate their resources in a way that will not contribute to economic development (Fredriksen et al, 1997).

Furthermore, Rogers, Holland, and Haas (2002), showed in their research article that, management discipline can be seen as a main reason behind a successful deal. In their paper, they mention four disciplines that help managers to create value in their portfolio companies. First, the successful manager’s focus on growth, not only on cost reduction, and a clear business plan needed to allocate the investment time horizon. Then, the managers have to focus on value not earnings. Third, treat equity capital as infrequent and finally, active ownership in the portfolio companies (Rogers et al, 2002).

By studying the previous researches about what investor do in the management phase after the investment with the aim of value creation, Gorman & Sahlman, (1986) concluded that the investors spend half of their time in the invested company and that direct engagement in their portfolio company totaled to about ten days per year. A similar research conducted by
Robinson, Chrisman, Frank, & R. Ryan (1987), showed higher direct interplay in form of studying reports, creating networks and other activities on thirty days. It is clear that there is huge variation about the time invested by investors in portfolio companies. Kaplan & Strömberg (2008), argued that the private equity firms create value and improve their portfolio company’s operations by financial, governance and operational engineering. Furthermore, they mentioned that financial engineering is the most important set of creating value in the company which refers to the improvement of the capital structure and reduction of after tax cost of capital in the invested company. Governance engineering on the other hand, refers to the way in which private equity investors control the boards of their portfolio companies, which are smaller than public company boards. Both financial and governance engineering were common in the 1980s, which counts as the early stage of the private equity industry. Recently, the investors supplementary added new type of engineering by the name of operational engineering. This type of engineering refers to industry and operating expertise. This means that the private equity firms hire professionals with the operating knowledge to develop value creating plans in the investment companies.

Jensen (1989) and Kaplan (1989) described the changes related to financial and governance engineering. Moreover, they found that the management level of ownership increased when going from public to private ownership, this also reduced management’s inducements to influence short-term performance. Kaplan (1989) also argued that the management has both significant advantage and disadvantages through rise and fall in the stock-prices and options.

Viral & Kehoe (2008) stated that, leading private equity investors create value in their portfolio companies by having further formal and informal meetings and a worthy management team. Jensen, (1989) argued in his article that leveraged buyouts create value through a combination of high leveraged and great incentives. Consistent with Jensen’s view, Kaplan, (1989) provided evidence that leveraged buyouts created value by improving the operating performance of acquired companies and by contributions of cash in the form of high debt payments.
2 Theoretical framework

This section gives an overview of the theory that forms the basis of the thesis. First the authors will describe the definitions of private equity, different types of buyouts, private firms value creation activities such as active ownership and networks, and then the section will be followed up by an explanation of exit types.

2.1 Fundamentals of private equity

According to SVCA (2012), private equity is a medium to long-term investment in unlisted and high growth companies. The private equity firms provide, in addition to capital, expertise, network, management skills, corporate governance and credibility to their portfolio companies through active ownership with a high level of risk. However, one can distinguish two types of private equity investments; public equity investments, which are investments in listed companies on the stock exchange market, and private equity investments which are investments in unlisted companies. The companies that they invest in are called portfolio companies and the capital used to fund these investments comes from the private market and pension funds (EQT, 2012). Normally, venture capitalists invest in three phases and these three phases are; seed, start-up and expansion (SVCA, 2012). The seed phase is a situation where capital is used for research, organization and development of a business concept before the startup of the company. Start-up phase refers to companies that are in a starting up stage and therefore the need of capital for development is huge. In this phase the company often has little or no turnover at all. Companies in the expansion phase are those that have achieved a certain level of turnover, and need capital to grow (EVCA, 2010).

Venture capital firms usually plan to make a sale of holdings, within 4-7 years, but according to the CFO of Altor Equity Partners, they can hold a company up to ten years. This process can be performed by various exit options such as; flotation, industrial sales or sales to financial actors (SVCA, 2012). According to Fredriksen (2003), the private equity firms facilitate the establishing of contact between those who have capital and those who need the capital for different investments.

Private equity firms aim to invest in companies with good growth and development potential. The portfolio firms often have either shortage of capital or lack of good management (Josh Lerner, 2009). The investment can be made in both the early and late stages of a company’s development. In addition, private equity firms play a crucial role in portfolio companies’ existence (SVCA, 2012). According to Ernst & Young (2012) press release, the total value from buy-out investments in Sweden during year 2011 was EUR 6.8 bn. There were 35
buyout deals in Sweden out of 126 total deals in Europe. This is the main reason why the authors will focus on this type of private equity investments.

2.1.1 **Buyout**

The meaning of buyout in these circumstances is when an investment is done in a company that is in a mature stage. The aim is to receive high cash flows and to create long lasting value by the use of management skills, additional knowledge and capital. A firm typically “buys out” a company to take control of it. A buyout can for example take form of a leveraged buyout, a venture capital buyout or a management buyout. According to the third quarterly activity indicator of EVCA, buyout investments in Europe increased by 22 percent in 2011 to EUR 9.7 bn (EVCA, 2012).

2.1.2 **Different types of buyouts**

Buyouts can be divided into different types of buyouts. These types of buyouts are shown in table 1.

<table>
<thead>
<tr>
<th>Different types of buyouts</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Buy-out (MBO)</td>
<td>Existing managers acquire a larger share of the company from other owners.</td>
</tr>
<tr>
<td>Management Buy-ins (MBI)</td>
<td>Non-current owners acquire a share of the company.</td>
</tr>
<tr>
<td>Management Employee Buy-out (MEBO)</td>
<td>Existing managers and employees buys out the current owners.</td>
</tr>
<tr>
<td>Leveraged Buy-out (LBO)</td>
<td>Outside LBO associations are the main owners. Financed with debt.</td>
</tr>
<tr>
<td>Investor-led Buy-out (IBO)</td>
<td>Venture capital firms acquire the firm; management provides some equity.</td>
</tr>
<tr>
<td>Leverage Build-up (LBU)</td>
<td>Buy-outs used to build up a larger group through acquisitions.</td>
</tr>
</tbody>
</table>

Table 1 Different types of buyout, Landström 2007, created by authors

A Management buyout (MBO) is often an acquisition of a family owned firm or a division of a company, in which it is bought up by a firm that is controlled by the existing management of the portfolio firm. MBOs must also frequently rely on support from a private equity firm or
from a former parent company for help with equity and relationships among other things (Landström, 2007). When dealing with smaller buyouts, managers can often gain a majority of equity on their own (CMBOR, 2005).

An MBO can evolve to a management-employee buyout (MEBO) when managers reach out to other employees for financial support. MEBOs are not created just because of external need for equity, but also for several other reasons. Some examples of these are:

- When the need of extensive close work with human resources are existing.
- When the firm is spread out over a large geographic area, which makes the firm hard to manage in a direct manner by the managers (owners).
- When the need for support by trade unions is large (e.g. privatization).

Management buy-ins (MBI) differs from MBOs in management staff. In MBIs outside investors buys the company and convert themselves into managers. There is however a negative aspect to this kind of buyout when compared to a MBO and that is a higher risk. The higher risk can be explained of the eventual loss in knowledge in internal operations of the firm, which the outside managers will have when compared to the old managers. Of course, new management can contribute with positive experiences as well. Often one can recognize a need of a combination of old experience and new blood in a company for a positive boost in operations. This is the main idea behind a mix of management buy-in/buy-outs (BIMBOs).

Leveraged buyouts (LBOs) are buyouts that are generally greatly leveraged, as it is described in the name. Often this type deals with buyouts of large corporations or divisions and LBOs have often a very high presence in the portfolio firm that they invest in. In the US, where the private equity firms have their roots historically, the board of directors of the portfolio firm consists mostly of the LBO representatives with the CEO as an exception of this (Landström, 2007).

LBO is a popular form of private equity financing. In this kind of transaction, the portfolio company takes a loan from the private equity firm to pay for the acquisition. The cash-flows and/or the assets of the acquired company are used as securities for the loan. After the buyout, the portfolio company is sometimes divided into smaller pieces, which are sold to lower the high leverage of the acquisition. The break up strategy was considered as very popular in the past, but the development of the price level of companies has increased. This development led to a value creation strategy instead of dividing the company and selling it off (Essvale, 2010).
Investor led buyouts (IBOs) are the most recent type of buyout forms (developed in the 1990’s). This is typically an acquisition of an entire firm or division by a private equity firm. IBOs are often referred to as bought deals or financial purchases. In this case there are no typical guidelines for the changes in management type. The existing management can be kept entirely, partly or replaced.

Leveraged build ups (LBUs) are several buy-ups of smaller firms that are put together to one large entity. These types of firm grew when private equity firms realized that higher returns are possible when combining several firms to one, than the aggregate returns of all firms separately.

2.2 Active ownership

Jensen (1989) argued that the increased ownership by management provides great incentives for managers to improve operating performance and generate cash flows. Moreover, Beroutsos, Freeman, & Conor (2007), research showed that active ownership and good governance is the main factor behind a successful investment. Good governance refers to the way in which the company’s owners corporate with the management team to create long-term value. In contrast, most listed companies tend to have a large number of shareholders who each own a small stake in the company with weak incentives. Unlisted companies however, are owned and controlled by single individuals, who in many cases play a substantial role in management of the company.

2.3 Network

In order to expand and make the portfolio company successful through value addition, there is a strong need of a well-established network. Networking is one of the value enhancing attributes that private equity firms are considered to contribute with to their portfolio firms. It is hard to measure the impact from networks in a quantitative matter. A basic description of networks is a model that describes a number of entities, which are connected (Axelsson & Easton, 1994). Examples of the value enhancing attributes mentioned above can be: better access to new technologies, new markets, gains in economics of scale, access to new know-how, risk diversification through membership, contacts, and gained complementary skills (Powell, 1987). Networking allows the portfolio firm to specialize in certain core activities and import other necessary attributes from the private equity firm. Management network is about establishing contacts and to conduct daily business activities in the best way possible (Copeland & Valuation, 1996).
2.4 Exit

The main aim of a private equity investment is to sell the holding company for more than the initial price paid for it. An exit requires an active decision, and active ownership gives investors an opportunity to be involved in the process of managing and planning for a future exit. Private equity firms that are disposing themselves from their portfolio companies can do this through several different exit strategies within 4-7 years, depending on the size and the situation of the portfolio companies. Prior to the acquisition, the private equity firm put up an action plan for an exit strategy and the time of exit from the portfolio company depending on the market conditions. In Sweden, the private equity firms tend to perform the most common types of exit alike; Initial Public Offering (IPO) which means that the private equity firm sells its shares to public investors. Trade sale, which can also be referred to as M&A (Merger and Acquisition) is the most common method when a private equity firm sell a holding company to another firm (EVCA, 2010). Finally, in financial sales, only shares of private equity firms can be sold, and not the whole portfolio company (Cumming & Macintosh, 2000). Other less desirable exit types are payback and bankruptcy (SVCA, 2012). It is essential to allocate time and resources to identify the most valuable exit strategy.

3 Method

Two general research methods can be used to study the subject, a qualitative or a quantitative method. Different kinds of data require different analytical methods. The important thing in choosing a method is that, authors have to choose the method that is most appropriate for the issue they are working on (Holme & Solvang 1996). Research that can be measured and is objective since it can be recalculated is considered to be quantitative. Qualitative research methods are the ones used to analyze a certain problem and to test the environment behind an event (Bernard, 2000).

In our thesis we are discussing how private equity firms create value in their portfolio firms. Doing this in a qualitative manner helps us study the theories behind the value creation. But is there really an increase in value in the portfolio firms after the buyout? To investigate this, we need to use a quantitative method. The quantitative method gives us an opportunity to draw a conclusion about the performance of the portfolio firms.

Additionally, we interviewed the respective managers at private equity firms and managers at the acquired portfolio firms, to observe their views of the acquisition. We have not based our
thesis on the interviews alone, because of the possibility of biased and subjective answers. When deciding the size of the sample used for interviews or calculations in the study, one must consider the tradeoff between the size of the sample and debt of the study. If the sample is large, the validity is high, but generalization of the sample on the population is greater. This makes the level of interpretation and understandings of an event lower (Hussey, 1997).

3.1 Data collection

The difference between quantitative and qualitative research methods has been explained above. However, there is one more important subject to cover concerning data. And that is the difference between primary and secondary data. Primary analysis is new studies of data in a research study, and it is typically the use of statistical methods. Secondary data is the re-use of data with the purpose of answering a research question with better statistical techniques, or answering new questions with old data (Glass, 1976)

We have used both primary and secondary data in this thesis. The primary data comes from interviews, and the secondary data comes from old research, annual reports etc. It is important for the researchers to be as objective and unbiased as possible when gathering primary data (Hallway, 1997). When gathering data, one must be very cautious. The sample data must reflect the population as good as possible. In the data sampling for portfolio companies used in the thesis, we handled this problem through a selection of acquired firms of multiple actors in the private equity market in Sweden. The requirements for portfolio firms were that they:

- Are operating in the Swedish market.
- Had been acquired between the years of 2003-2010. The timeframe is set so that the research is up to date, and so that the performance before, under and after can be measured.

For the chosen firms to be good represents of the entire population, we have selected both public and private portfolio firms from the largest private equity firms operating in the Swedish market. The study is performed to reflect the Swedish private equity market, not a particular private equity firm. Data is therefore presented in aggregate forms.

Questionnaires, interviews and of course observations are the most frequent used techniques for gathering data. A questionnaire is a fast technique that works great when a large number of participants are needed. Interviews can help collect more relevant data for the study, because of the possible discussion between the two parts. The questions asked have less
probability of being misinterpreted in interviews when compared to questionnaires (Saunders et al, 2003).

Numerical data about the sample companies have been collected from databases like Amadeus and Affärsdata. We encountered some problems when collecting data for the chosen portfolio firms, due to limited information available before the buyouts. After a discussion with our supervisor, we chose to use ten portfolio firms that were randomly selected from our sample of approximately 65 portfolio firms.

3.2 Interviews

It is important to demonstrate the information that we have used in our thesis and that it is valid and reliable to the result. We chose to interview three companies, two private equity firms and one portfolio firm. This was done to gather as much relevant information as possible for newly acquired portfolio firms. The choice to interview both private equity firms and portfolio companies was made in order to gain understanding from both sides of the deal. It is difficult to investigate how private equity firms create value with help of questionnaires, especially when considering that different methods for value creation can be used by different firms. This would require different questions for different participants. To solve this issue, we have used interviews. But when this option was not achievable, a questionnaire with open questions was sent out to the participants.

The authors believe that pharmacy Hjärtat and Swedegas are clear examples where the private equity firms has managed to create value in a short time period, and where an IPO is supposed to generate enormous profits. Therefore, in our paper we chose to interview respondents who were well informed and involved in this collaboration. We made sure that the person that we have chosen to interview were well understood in what we are examining (Eriksson & Wiedersheim-Paul, 2011).

The three respondents that we have interviewed are

- Jesper Eliasson, Finanace Director (CFO) at Altor Equity Partners AB.
- Stefan Glevén, responsible partner at EQT Partners.
- Lars Gustafsson, Managing Director at Swedegas.
The interviews were conducted via telephone and email communication. A follow up was made on both occasions to verify that everything was understood, and to ensure the participants that they could contact us for more information or if they feel that they need to add anything else to the already existing interview.

Two forms of interviews are frequently used; structured and unstructured interviews. Structured interviews are based on standardized and fixed questions. Structured methods are appropriate for large number of interviews and if interviews are carried out by different persons. Unstructured interviews are more open for discussion, more in to depth and more informal than structured interviews. The downsides for structured and unstructured interviews respectively, are standardization and bad comparability (Grix, 2004). There is however a third option, a mix of the two above; semi-structured interviews. Semi-structured interviews are interviews were the questions can be asked in a more flexible order or appearance, to fit the conversation better (Saunders et al, 2003)

For this study, we have used a semi-structured technique. Questions have been formalized beforehand, but if the participant adds anything of value for the study, it has been welcomed. The questions were based on the past theories used in the thesis. Some firms had to answer modified questions about past acquisitions that were of special interest for the study. The interviews were conducted in Swedish or English, depending on the participant. This was done to avoid misinterpretation of questions and to enhance participants’ effortlessness. Both parties were very comfortable with the language used, and no difficulties occurred. All telephone interviews were recorded with help of an application on the phone used.

3.2.1 Different types of financial ratios

Since it is difficult to measure changes in portfolio firms with the help of previous studies, we chose five financial ratios to examine the efficiency, effectiveness, balance sheet and the income statement of the portfolio companies. The selected ratios are; number of employees, operation revenue (OR), net income (NI), return on assets (ROA) and EBIDTA-margin. Number of employees specifies how many employees the company has had on average over a time period, excluding self-employed and unpaid family members working in the business (Strömbeg et. al, 2010). The changes in the number of employs in our sample firms before and after the buyout showed if the companies were getting strategical benefits from the buyout. In order to measure the company's core day-to-day operations we chose to study the operating revenue of the chosen companies. Operating revenue is the first described endpoint
in the income statement and consists of revenues minus operating expenses (Wallin, 2005). To see how profitable the company is over a period of time, we chose to measure net income of the sample companies, which is the revenue after paid taxes, employees, rent and any purchases needed in the company. It represents the total profit of the firm and is often described in a per-share approach as the firm’s earnings per share (Berk & Demarzo, 2011). The return on assets is profit before interests and taxes. It is measured as a percentage of total assets, and is a measurement of performance of a company that evaluates the effectiveness of the entire business (Walsh, 2006). EBITDA refers to the earnings before interests, taxes, depreciations and amortizations. It also takes cash the firm received from its operations in account (Berk & Demarzo, 2011). EBITDA-margin on the other hand refers to the profit above as a percentage of net sales (Wallin, 2005). Ratios mentioned above are going to be used in order to show changes and development in portfolio companies (Table 2).

<table>
<thead>
<tr>
<th>Different Types of ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of employees</strong></td>
</tr>
<tr>
<td>Number of full time employees in</td>
</tr>
<tr>
<td>the company.</td>
</tr>
<tr>
<td><strong>Operating revenue</strong></td>
</tr>
<tr>
<td>Revenue minus operating expenses</td>
</tr>
<tr>
<td>of the company.</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
</tr>
<tr>
<td>Revenues after paid taxes,</td>
</tr>
<tr>
<td>employees, rent and purchases</td>
</tr>
<tr>
<td>needed in the company.</td>
</tr>
<tr>
<td><strong>Return on Assets</strong></td>
</tr>
<tr>
<td>Profit before interest and tax as</td>
</tr>
<tr>
<td>a percentage of total assets.</td>
</tr>
<tr>
<td><strong>EBIDTA margin</strong></td>
</tr>
<tr>
<td>Earnings before Interests, Taxes</td>
</tr>
<tr>
<td>and Depreciations and Amortization</td>
</tr>
<tr>
<td>as a percentage of net sales.</td>
</tr>
</tbody>
</table>

Table 2 Different types of financial ratios, created by authors

4. **Empirical Data and Analysis**

*In the following section the authors will present results for the randomly selected private equity firms and respective portfolio companies operating in the Swedish market. The authors will also present responses from the conducted interviews with EQT, Altor and Swedegas.*

4.1 **The firms included in the research**

As we mentioned before, both portfolio and private equity companies that are included in this section have been randomly selected. First findings of the private equity firm will be presented followed up with related portfolio companies. Finally some additional analysis will
be presented after each private equity firm and the portfolio company/companies owned by them.

4.2 Nordic Capital Ltd

Nordic Capital is one of the largest PE firms in the Nordic region and the German-speaking countries. They are specializing in general buyouts in large to medium sized portfolio firms. Nordic Capital has a respectable reputation for successful investments in the healthcare sector in particular. Since the startup in 1989, the fund operates in various industries, both local and international. The approach for value creation is to “form a partnership with the management of the portfolio company and thereby create value through committed ownership, as well as by targeting strategic development and operational improvements” (Nordic Capital, 2012).

Model 1 Source: Nordic capitals homepage, created by authors

4.2.1 Contribution

Nordic Capital is aiming to help portfolio firms to be as profitable as possible in the long run, and they claim that 70 percent of the total value creation made originates from operational improvements. To achieve this, they are setting mutual goals together with the management of the portfolio company. Examples of these goals are: strategic add-on acquisitions, fast organic growth and/or establishing a sales organization that will operate internationally.

Often the investments are buyouts of two or more related companies, which are combined into a new more powerful firm. Nordic capital also has an extensive external network that can help with resources and fast decisions concerning strategic situations. Growth, development and globalization in the portfolio firm is encouraged and supported. Before doing that, Nordic Capital is trying to improve the portfolio firm with a more basic approach, such as simplifying processes, reducing cost levels and working on an appropriate financial structure. When an
investment opportunity has been identified, six value creation issues are focused on. They are presented in table 3 (Nordic Capital, 2012).

<table>
<thead>
<tr>
<th>Key value creation themes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structural transformation</strong></td>
</tr>
<tr>
<td><strong>Operational improvement</strong></td>
</tr>
<tr>
<td><strong>Buy and build</strong></td>
</tr>
<tr>
<td><strong>Emerging market growth</strong></td>
</tr>
<tr>
<td><strong>Strategic repositioning</strong></td>
</tr>
<tr>
<td><strong>Growth acceleration</strong></td>
</tr>
</tbody>
</table>

Table 3 key value creation themes, Nordic Capital homepage. Edited by authors

4.2.2 **Menigo Foodservice Ltd**

Menigo Foodservice Ltd is a company specializing in wholesale of food, beverages, tobacco and other household goods. The company is owned by Nordic Capital since 2006, and it is operating in the Nordic countries. Nordic Capital acquired the firm from ICA and changed the name from ICA Meny Ltd to Menigo foodservice Ltd. (Menigo, Amadeus).

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Menigo foodservice</td>
<td>Nordic Capital</td>
<td>2006</td>
<td>In Nordic countries</td>
<td>Food service</td>
</tr>
</tbody>
</table>

Since the acquisition of Menigo foodservice Ltd, big structural changes have been implemented by Nordic Capital. A new strategy has been formed, and the organization, working staff and purchase strategies have been upgraded. The enterprise resource planning system has been replaced with a new one, new logistics structure has been established, and liquidation of unprofitable divisions has been performed. The cost for all this has been covered of funds contributed by Nordic Capital (Annual report Menigo, 2006 and 2008).
Examples of actions performed by Menigo Foodservice Ltd after the buyout are:

- New contract with Preem in 2006. Menigo Foodservice Ltd was because of this the head supplier of everyday commodities to Preem for three years ahead. This deal was worth approximately 200 million SEK.
- In 2006, the agreement with Statoil Retail Ltd was extended by three more years. The agreement included supplying confectioneries, snacks etc. to all Statoil’s service stations in Sweden. This extended deal was valued to just over 500 million SEK.
- Expansion of Time-shops with nine more.
- In 2006 a fusion of the former subsidiary companies, KE Samuelsson Partiaffär Ltd and Lennart Weslien Ltd with Menigo Foodservice Ltd was performed.
- In 2007, Menigo Foodservice Ltd acquired Gold cup D 2679 Ltd and Isacssons Eftr Ltd. These deals improved their market share in the meat delivery and fruit market.
- New strategic warehouse in Strängnäs in 2008. This up to date new facility helped greatly with the supplying of commodities to the Stockholm region. Another step in the improvement work was to close the warehouses in Nässjö and Karlstad in the same year. The same year a new CEO was introduced.

4.2.2.1 Number of employees

In the figure below, number of employees in Menigo Foodservice Ltd is presented in the time period of 2004 to 2010. After the buyout, the number of employees increased in 2007 due to investments made by Menigo. While, in 2008 the company shut down operations in Norway and Sweden, which led to a reduction of employees. By introducing new food delivery services in 2009, the need for human resources increased. On the other hand, an introduction of cost reduction programs in 2010 led to a decline in number of employees by 9 percent units.
4.2.2.2 **Operating revenue**

The table below illustrates the Operating revenues of Menigo before and after the acquisition during 2004 to 2010. After the acquisition in 2006, Menigo revenues decreased due to huge investments and increases in the variable costs resulting from restructuring efforts, launches of new stores and the financial crisis in 2008. The company’s sales increased in 2010 and its operating revenue reached the same level as in the time of buyout.

![Operating revenue chart](image)

**Figure 5 Source: Amadeus and own calculation. Acquired in 2006**

4.2.2.3 **Net income**

The figure below illustrates the development in net income of Menigo Foodservice Ltd. The company showed lower profits during years after the buyout, due to massive costs of the restructuring effort that Menigo has encountered in order to create a modern, efficient and profitable company through a reorganization of itself and its strategy. Afterward in 2008, costs increased rapidly once again, because of restructuring efforts and the buildup of new...
warehouses. Through direct import of fruit and meat from producers, the company gradually decreased costs in 2009 and showed positive net income in 2010.

**Menigo**

**Net Income th EUR**

![Graph showing Menigo's net income from 2004 to 2010](image)

Figure 6 Source: Amadeus and own calculation. Acquired in 2006

### 4.2.2.4 Return on Assets & EBITDA-margin

Figure 7 gives us an impression of how the management of Menigo uses the assets available in the company to generate profit. Menigo showed an upward going trend in ROA before the acquisition (2004-2006), but the ratio declined dramatically from 2006 to 2008. This was a result of an investment in Norfresh Ltd, a wholesaler of fruit and vegetables and loss of two service contracts in Norway. Although opening of new central warehouses and new agreements with Swedbank led to an upturn in ROA in 2010, but still the ROA was lower if compared to the same in the buyout time. The agreement ensured sustainable funding and increased the availability of loans (Menigo annual report 2010). EBITDA-margin of Menigo varied around zero percent in the observation period.

**Menigo**

**ROA & EBITDA-margin (%)**

![Graph showing Menigo's ROA and EBITDA-margin from 2004 to 2010](image)

Figure 7 Source: Amadeus and own calculation. Acquired in 2006
4.2.3 Finnvedenbulten Ltd

Finnvedenbulten Ltd is a developer of products, technical solutions and systems in metal materials. Finnvedenbulten Ltd is partners with several actors in the vehicle industry and it operates globally, but their main strength lies in Europe. Nordic Capital bought Finnvedenbulten Ltd in 2004.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finnvedenbulten Ltd</td>
<td>Nordic Capital</td>
<td>2004</td>
<td>In Nordic countries</td>
<td>Metal industry</td>
</tr>
</tbody>
</table>

Examples of actions performed by Finnvedenbulten Ltd after the buyout:

- Finnveden Ltd went from being a public firm noted on the Stockholm stock exchange market, to a private firm in 2005.
- In the same year, Finnveden was divided into two corporate groups. During that, a consolidation between Finnveden Ltd and a subsidiary company of Finnveden Holding Ltd was completed. With this consolidation, Finnveden Ltd was going to benefit from synergies between the two and from specialization towards automobile industry.
- Another step taken towards specialization in the automobile industry occurred when “Allmän industri” was sold to Bufab Ltd in 2005.
- Several activities were moved from Vansbro and Hallstahammar to facilities in Poland in 2006. New foundry facilities were building up in Poland.
- Several real-estate operations were liquidated in Poland, Germany and Sweden. This was made mostly to remove the width of product/service range in the company. There were some changes in the management as well.
- Finnvedenbulten Ltd liquidated Powertrain, which resulted in a profit of 375 million SEK in 2007. A fastener, a division of Finnvedenbulten Ltd, was renamed to Bulten.
- In 2008, Finnvedenbulten Ltd decided to let Metal Structures and Bulten to be self-driven units.
- New deals with Volvo Powertrain and BMW in 2009 while a recovery in the vehicle industry occurred. Finnvedenbulten Ltd was highly affected by the finance crises in 2008.

4.2.3.1 Number of employees

As we can see from figure 8, the number of employees decreased over time after the buyout. The yearly reduction can be interpreted as an adjustment of costs and human resources. After
the acquisition, Finnvedenbulten decided to shut down operations in Vansbro, and to minimize and transfer the activities in Halstahmmar to Poland, which decreased the number of total employees in the company. The decline in demand for the vehicle and manufacturing industry cut the size of employees in 2009. The company’s new contract with Volvo Powertrain and BMW in 2009 led to a slight increase in number of employees in 2010. (Finnvedenbulten Ltd, 2012).

![Finnvedenbulten Number of employees](image)

**Figure 8** Source: Amadeus and own calculations. Acquired in 2004

4.2.3.2 **Operating revenue**

We can see in the figure below that operating revenue of the company decreased in a similar pattern as the number of employees. The negative results generally depend on the effects of the reduction of staff and other cost saving activities in the company.

![Finnvedenbulten Op.revenue th EUR](image)

**Figure 9** Source: Amadeus and own calculations. Acquired in 2004

Transferring some operations from Sweden to Poland, closing activities in Vansbro and restructuring of the Finnvedenbulten, both in Sweden and other countries, led to lower operating revenues in the company after the buyout. Moreover, the financial crises in 2008,
and the decline in demand of the automotive industry that resulted from the financial crises, were the reason behind a sharp market downturn and the decrease in operating revenues in 2009. This changed as the demand in automotive industry increased, which in turn improved profitability in the company in 2010. (Finnvedebulten Ltd, 2012).

4.2.3.3 Net income

Considering the figure below, we can say that the company’s net income has been low after the years of the buyout, but in 2007, after disposal of business areas of Finnvedebulten, the company faced capital gains by MSEK 375, and a reduction in net debt by MSEK 100. Beside the financial crisis in 2008, letting Bulten and Metal to be independent business areas led to a decrease in net income. In the last quarter of 2009, the markets started to recover gradually and in the first quarter of 2010 the manufacturing industry began to grow rapidly and demand increased, which led to an increase in production and net income in the company.

![Net Income Graph](source: Amadeus and own calculations. Acquired in 2004)

4.2.3.4 Return on Assets & EBITA-margin

Figure 11 demonstrates the percentage change in ROA and EBITDA-margin of Finnvedebulten Ltd. From the information below; we can see that the ROA in the company decreased in the time period of 2005-2006, while EBITDA-margin increased at the same time. In 2007 ROA decreased from 1.72 to -11.98 percent, due to high costs of restructuring efforts. The main reason behind the decrease of the ROA and the EBITDA margin in 2007 was the deficit in the business area Metal Structure, arising from start-up problems in Poland. The lowest level of Finnvedebulten’s ROA and EBITDA-margin was recorded in 2008, in
which the company faced a sharp downturn in the manufacturing industry. A recovery of the vehicle industry in 2010, led to an increase of ROA and EBITDA-margin in the same time.

**Figure 11** Source: Amadeus and own calculations. Acquired in 2004

### 4.2.4 Interpretation of results for Nordic Capital

As mentioned before, 70 percent of the value created comes from operational improvements. This seems to be the main aim for Nordic Capital. One of the stated approaches to value creation is; drive for operational excellence. In our results, the changes made by Nordic Capital are large and clearly visible. Most of the implementations were made in the beginning of the investment phase, where the maximum value can be extracted (Fredriksen, 2003). A new strategic plan was developed for Menigo right from the start, strategies were upgraded etc. This indicates a very active ownership by Nordic Capital (Heal et al, 2005). Growth was mainly achieved by mergers and acquisitions in Menigo, not only by reduction of costs (Rogers et al, 2007). The competitive advantage in Menigo was sustained by acquisitions of competitors and companies as Gold Cup which provided Menigo with a wider range of products in the market. Menigo received help with both capital and better management. Most of the changes in Menigo were financed through Nordic Capital and the radical changes in Menigo can only be explained by an active ownership (Josh et al, 2009).

Number of employees has increased through mergers and acquisitions. This is typical when a private equity firm enters and installs a new expanding strategy. Menigo replaced two warehouses in Nässoever the crises in 2008 affected the global economy, but much of the loss
in net income in 2008 can be explained with massive costs in the reorganizing and restructuring effort by Menigo.

Nordic Capital preformed large structural changes in Finnvedenbulten directly after the buyout. The value adding process of Finnvedenbulten was executed methodologically according to plan. Finnvedenbulten became private instead of publicly owned, this can be interpreted as a step toward better control functions in order to ease the work for Nordic Capital as a single owner. Breakdowns and mergers were performed to gain synergy profits and to gain profits through greater specialization. Nordic Capital’s intentions of this can have been to simplify control issues and to allocate focus and resources to the most profitable parts of the company (Fredriksson et al, 1997). Nordic Capital encouraged Finnvedenbulten more towards the vehicle industry and towards specialization and better core competencies. This can be interpreted as a result of identified growth opportunities in the automotive industry. The cutbacks in the real-estate operations is an example of how Nordic Capital is trying to create a firm with more clear goals and competitive skills concentrated in one certain industry.

The move of several activities from Swedish facilities to Polish ones can be interpreted as an effort to reduce costs. This was popular in 2005 and onwards as a consequence of the entry of Poland in the EU. Poland has an excellent geographical location in Europe when considering potential export possibilities. When EU-membership was gained, existing trade barriers were removed or simplified, making activities in Poland even more attractive (Opala & Sahar Haj Mohammadi, 2006).

Number of employees has significantly decreased in Finnvedenbulten over the holding time period. This can be a result of a cutting cost effort made by Nordic Capital. One of the worst victims of the recent financial crises was the vehicle industry and as a supplier to that industry, Finnvedenbulten experienced a very turbulent time economically. This resulted in a decrease in employees and operating revenue in 2009. Finnvedenbulten’s performance is very sensitive to fluctuations in the vehicle market, and as observed, a slight improvement and recovery in that sector results in an increasing trend in Finnvedenbulten’s operating revenue as well.

A restructuring effort of the debt structure is visible in 2007, when Nordic Capital reduced the net debt with MSEK 100 after a disposal. Restructuring of the firm both, locally and internationally resulted in high costs after the buyout which was reflected in the ROA between 2006 and 2009. Once again, the financial crisis is of a major importance to the
negative ROA during 2008 and 2009, but in 2010 a positive ROA was recorded in the first time since the buyout. Finnvedenbulten can be seen as a long term project for Nordic Capital, one can question if this really was planned as a long term project or if the financial crises in 2008 made them change their plans. As the EBITDA-margin suggests, the company suffered some core profitability problems in 2007-2009, but has now managed to turn it around.

4.3 CapMan

CapMan Capital Management was founded in 1989, and they invest in Nordic mid-market unlisted companies in several different industries. Industries where they operate mentioned on the CapMan webpage are manufacturing and engineering, industrial services, retail, outsourcing, and healthcare. Key targets for their portfolio companies are growth, improved profitability, and strengthened strategic position (Capman, 2012).

CapMan is targeting companies with net sales of €50-500 million, enterprise value between €50-250 million, needed equity investments of €20-70 million, and companies were they can gain controlling positions. The model below shows what CapMan is searching for when investing, and it also shows their approach on value creation.

Model 2 Source: Capman, created by authors

CapMan states that their strengths are experience, great local presence in the Nordic countries, and long and very good relationships with banks operating in the Nordic region.
4.3.1 **Cederroth Ltd**

Cederroth is a Swedish company that operates internationally as a manufacturer and marketer of toiletries, household, wound care, first aid, and healthcare products. It was founded in 1895 by Christian Cederroth. CapMan acquired Cederroth Ltd in 2008.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cederroth Ltd</td>
<td>CapMan Buyouts</td>
<td>2008</td>
<td>Europe</td>
<td>Healthcare</td>
</tr>
</tbody>
</table>

After the buyout, a new distribution channel other than Apoteket was gained when Cederroth started to cooperate with Novartis in 2008. The same year, Cederroth International Ltd was renamed to Cederroth Ltd. To expand their presence in the European wound care market, Cederroth Ltd acquired the Spanish company Distrex. The Swedish pharmacy monopoly was deregulated in 2010, which resulted in even more distribution channels for Cederroth’s products. Cederroth bought LdB, a skin brand that is a leading brand in the Swedish market. LdB products are also sold in Norway and Finland.

4.3.1.1 **Number of Employees**

From the figure below we can see that the number of employees increased gradually before the acquisition in 2008, with small changes in 2009.

![Cederroth Number of employees](image-url)

*Figure 12 Source: Amadeus and own calculations. Acquired in 2008*

4.3.1.2 **Operating revenue**

During the years of 2003-2008 operating revenues were stable in Cederroth with only small variations (figure 13). After the buyout in 2008, operating revenue of the company decreased due to the purchase of the Spanish company Distrix. Cederroth’s contract of distribution partnership in HTC and deregulation of the pharmacy market, which increased the number of
distribution channels for Cederroth products, led to rapid growth in operating revenue in 2009.

![Cederroth Op.revenue th EUR](image)

**Figure 13** Source: Amadeus and own calculations. Acquired in 2008

4.3.1.3 **Net income**

The figure below shows the net income of Cederroth Ltd during 2003-2009. There are small changes in the company’s net income during the years of 2003-2006. In 2007 production of Pharbios (Cererroth’s subsidiary) moved from Gothenburg to Paramedical in Denmark, which led to a decrease in net income of Cederroth. Increasing net income of the company can be interpreted as a result from the change of ownership in 2008.

![Cederroth Net Income th EUR](image)

**Figure 14** Source: Amadeus and own calculations. Acquired in 2008
4.3.1.4  **Return on Assets & EBITDA-margin**

As illustrated in figure 15, the main reason behind the upturn in ROA and EBITDA-margin in 2004 is that Cederroth acquired a company named Vitaplex. In order to raise the decreased level of ROA in 2007, and develop the business, Cederroth expanded both in Sweden and in other countries. After the buyout in 2008, Cederroth bought the Polish cosmetic company Dermika and the brand named LdB in 2009-2010. Cederroth faced high profits in 2004 and reached the lowest profit levels in 2007. This decrease in ROA can be interpreted as a result of restructuring for the company, ending distribution agreement in Trio mega (Omega-3) and Cernitol, and lunching of their own dieting brand.

![Cederroth ROA & EBITDA-Margin (%)](image)

Figure 15 Source: Amadeus and own calculations. Acquired in 2008

4.3.2  **Ljunghäll Group Ltd**

Ljunghäll Group Ltd is a specialist in die-casting for the vehicle and telecom industry among others. The company is a leading actor in the Nordic countries with facilities in Sweden and Czech Republic. CapMan Buyouts acquired Ljunghäll Group Ltd in 2003.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ljunghäll Group AB</td>
<td>CapMan Buyouts</td>
<td>2003</td>
<td>Europe</td>
<td>Die Casting</td>
</tr>
</tbody>
</table>

Ljunghäll Group acquired Drop-press Caslev s.r.o (in Czech Republic) in 2007. The purpose of this deal was to initiate a low price alternative in their product range. CapMan contributed with funds in form of convertible loans when needed during this time period.
4.3.2.1 Number of Employees

The figure below shows the number of employees of Ljunghäll Ltd after the buyout in 2003. It is visible that the number of employees in the firm has increased gradually after the buyout in 2003 until 2008. After the financial crises in 2009, the company stopped its production in Södra Vi and Caslav, in which 218 people lost their jobs. In 2010, small changes from the previous year are noticeable in number of employees in Ljunghäll due to continues weak markets.

![Ljunghäll Number of employees](image)

Figure 16 Source: Amadeus and own calculations. Acquired in 2003

4.3.2.2 Operating Revenue

Operating revenue for Ljunghäll in 2004 was marked by sharp increases in volume both from the telecom and the automobile segment. In 2005 the relocation of production to China and increased competition, led to a decline in operating revenues. Operating revenues increased in 2006 due to the new contract with Jaguar cars. In 2009, total production of the automobile industry decreased in entire Europe, and this decline in the industry affected Ljunghäll’s operating revenue negative (Ljunghäll AB, 2009). In 2010, a slight recovery in the automotive industry, productivity improvements and cost savings led to an increased level in total production of the company.
The net income of Ljunghäll decreased rapidly from 2003 to 2005, due to substantial investments both in building and production equipment. The decrease in demand in the vehicle industry and the increasing costs for the company, led to a downturn in 2008. A new management structure and working procedure named Ljunghälls Production system, improved the production system of the company and caused increases of net income in 2009 and 2010. Ljunghäll was not able to recover and reach the level of net income as it had in the time of the buyout.
4.3.2.4 Return on assets & EBITDA-margin

ROA in Ljunghäll varied greatly during the years of 2003-2010, but the lowest level was reached during the financial crises in 2008, which counts as the dark year in the company’s financial history. The vehicle industry in Sweden and Europe recovered from the crises, but Ljunghäll still faced lower ROA in 2010. EBITDA-margin of the company was higher in 2004 due to an increased level of sales in the vehicle industry. Although, the numbers decreased in following years and Ljunghäll faced the lowest level of sales in 2008. The increased demand in the automobile industry shifted the EBIDTA-margin of the company up from -8 to 8.6 percent in 2010.

Figure 19 Source: Amadeus and own calculations. Acquired in 2003

4.3.3 Interpretation of results for CapMan

The first step of value creation by CapMan is to find appropriate portfolio firms that suit their narrow and extensive investment criteria. This is common in every private equity firm, but when looking on these criteria, CapMan seems to look for superb investment opportunities. To succeed in the selection of an investment with good growth potential is crucial for a successful deal (Fredriksen, 2003).

CapMan is aiming for growth, improved profitability, and strengthened strategic position. To accomplish these goals, the most important factor that they are contributing with is their network of various actors on the Nordic region. The value added through networks by CapMan is mostly a result of the access to new knowledge, contacts, and gained complementary skills (Powell, 1987).
When taking a closer look at Cederroth, growth has been achieved by acquisitions and mergers. One example of acquisition of brands that had a very competitive and stable market position is LdB. This gave Cederroth an extra boost to the current market share. The investment criteria to invest in sectors with potential consolidation were spot on in this example. As the Swedish pharmacy monopoly was deregulated in 2010, Cederroth gained help from CapMan that had great expertise in new and growing markets. New distribution channels emerged and this increased their market presence.

An expansion of Cederroth internationally was also made by an acquisition of a Spanish wound care firm. Once investigating Cederroths operating revenues and number of employees, the stability is clearly visible. This is also one of the criteria for CapMan when looking for possible investments. Cederroth has had a competitive and very stable market position besides the mentioned growth potential. The lower results in net income, ROA, and EBITDA-Margin in 2007, one year before the buyout could have led to a lower price given for Cederroth. But Cederroth recovered in all these ratios very quickly in 2008. The deviation in the mentioned ratios can be explained as a result of large investment costs and structural changes in the company.

A closer look at the other portfolio firm, Ljunghäll, owned by CapMan in our sample, shows a similar development. The aim for growth was reached one year after the buyout with an increase in demand in the telecom and vehicle sector. Since the buyout, Ljunghäll has showed very stable financial ratios with a slightly upward going trend. Also this has gone according to plan, if year 2008 is not counted in. Ljunghäll was highly affected by the financial crises as all others in the vehicle sector. As a result of this, massive layoffs took place and CapMan contributed with capital in different forms to support Ljunghäll during this tough time.

A cost reduction attempt can be seen in the acquisition of Drop-Press Caslev (by Ljunghäll) in 2007. This can also be interpreted as an effort to grow through an increase in their product range with a more affordable alternative to their current products. The aim of this could also have been to increase their market share in Europe and especially the Baltic countries were low cost products are more popular than in the western parts of Europe. The financial result in 2007 was affected negatively because of large investments. This was made when the global financial situation was at its peak, but after the financial crises one year later, the Caslev operations were closed among others. This could have been an action taken because of the
decrease in demand around the world, and cost reducing activities became a more popular way to grow through efficiency than to expand in this turbulent and risky time period.

4.4 FSN Capital

FSN Capital was established in 2000, and is a leading private equity firm in the Nordic region. They are targeting companies with enterprise values between €50 million and 200 million. Through active ownership, FSN Capital is trying to transform owned portfolio firms into more competitive, global and more profitable firms (FSN, 2012). When FSN Capital is trying to achieve transformation in the portfolio firms as mentioned above, they are implementing initiatives in three steps to enhance performance. First, FSN Capital is trying to reach a common positive state of mind in the management of the portfolio firm. If this is accomplished, management will have a similar thinking concerning raise of performance or ambitious level for example. Actions as benchmarking, analysis, comparable case studies and management incentives are used to complete this task. Coaching sessions together with individual or group management discussions are also used. Second, a new strategy of resource allocation is developed to suit the divisions that are most profitable. An Activity Based Cost (ABC) analysis is also performed to investigate the product, customer, channel, and segment profitability. This and an analysis of customers, markets, technology, and competitors are used to support a five-year financial plan. Furthermore, the strategies and the financial plan are reviewed and altered annually. Third, a transformation process in the organization is formed. This is a management mission, but FSN Capital assists in the setting up of the process but they are also working very carefully to not end up in day-to-day operations. The assisting is done cautiously in order not to lose accountability and to avoid dilution (FSN, 2012).

4.4.1 Value creation of FSN Capital

FSN Capital is first investigating key value-drivers within every portfolio firm and a goal is set to improve the quality in the portfolio firms. To reach the goal, FSN Capital is focusing on issues demonstrated in the model below:
Aura Light was founded in 1930, but Aura Light Ltd was established first in 1999 as a subsidiary to Aura Light International. Aura Light is producing ecological lighting solutions and was acquired by FSN Capital in 2006. Aura Light is currently operating in Europe but is expanding globally.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aura Light</td>
<td>FSN Capital</td>
<td>2006</td>
<td>Europe</td>
<td>Lighting</td>
</tr>
</tbody>
</table>

FSN Capital is trying to achieve growth in Aura Light by making the offered product range broader, and with efforts to expand internationally. They are also helping in the process to transform Aura Light to become an expertise provider of ecological and economical lighting solutions. To carry out the changes above, FSN Capital has implemented following initiatives: The sales force has doubled and is now including people from 9 different nationalities. Decision making in the firm has been moved upwards to managers and the sales department works with a segment focus instead of a geographic focus. In order to increase new product launches, FSN Capital has contributed to a larger R&D department. Pricing, efficiency and environmental strategies have been reviewed and altered. Aura Light has also opened up new subsidiaries in southern Europe (FSN, 2012).

Acquisitions and mergers since the buyout are stated below:

- In 2007, new subsidiaries were built up in France and Italy. A subsidiary was also started in Spain the following year.
• Aura Light acquired Elmetec in 2008, and achieved great growth in sales through large investments.

• A fusion of four holding corporations was completed in order to give Aura Light a better corporate structure.

Trading operations has been established in China in 2010 and a subsidiary has been built up in Shanghai.

4.4.2.1 **Number of Employees**

From the figure below it is visible that the number of employees has increased after the buyout between 2006 and 2008. There are small changes in the number of employees in Aura Light, which can be interpreted as that the company has a stable economy.

![Aura Light Number of employees](image)

**Figure 20** Source: Amadeus and own calculation. Acquired in 2006

4.4.2.2 **Operating revenue**

Operating revenue of the company has increased gradually over time before and after the company has been acquired. Aura Light’s business idea of sustainability and energy saving are the main reasons behind the growing rate of the company’s operating revenue.
4.4.2.3 **Net income**

There are both upturns and downturns in Aura Light’s net income during the years of our research, with the lowest level in 2003 and highest level in 2010. The fluctuations in sales have affected the company’s net income during these years.

Despite intensive efforts from Aura Light to raise the profit level, it decreased in 2008 and 2009. Net income recovered and increased rapidly in 2010, even though the strong development of the Swedish crown reduced some of Aura Light's foreign revenues.
4.4.2.4 Return on Assets & EBITDA-margin

The ROA and the EBITDA-margin of the company reached high peaks in 2005, mainly due to good control over the company’s variable costs. Aura Light had high EBITDA-margin both before and after the buyout. The high EBITDA-margin of the company was above 10 percent during the years observed, which can be interpreted as that the company’s development and growth potential were high. In 2008, substantial investments in sales- and marketing activities were made, which in turn led to a decrease in the ROA of the 2009. Establishment of trading operations in Shanghai, China, and improvements of the capital structure, resulted in higher ROA in 2010.

![Aura Light ROA & EBITDA-Margin (%)](image)

Figure 23 Source: Amadeus and own calculation. Acquired in 2006

4.4.3 Interpretation of results for FSN-Capital

The three steps that FSN-Capital is following to enhance performance can be interpreted as a modified strategy of Kaplan & Strömbergs (2008) three ways of creating value in portfolio firms. FSN Capital is trying to implement a positive state of mind in the acquired management to increase incentives to perform better and in a fashion that satisfies the goals of the firm. This can be seen as a method of governance engineering to push the portfolio firm in the direction chosen by FSN-Capital. Active ownership is considered to be one of the best value adding contributes according to Jensen (1989) to a successful investment. The second step can be seen as a continues implementation of financial governance where cost analysis are performed to investigate the capital structure and alternatives to cut costs.

Looking at the two ways of value creation above and considering the third step gives an impression that FSN-Capital is a private equity firm that mostly concentrates on active ownership as their main value adding alternative. They are very active in their investments, so
active that they state that they should be very cautious in order not to end up in the portfolio company’s day-to-day routines. This is also confirmed when considering the model presented above on value creation of FSN-Capital.

The portfolio firm in our sample, Aura Light is reflecting the strategies of FSN-Capital quite well. Core strategies have been created through specialization in economical lighting, great investments in R&D, improvements in operational factors and growth has been achieved through globalization and add-on acquisitions. When analyzing the ratios of Aura Light, it is noticeable that it is a very stable company with great stable growth development in the recent decade. A new owner as FSN-Capital can contribute with further development and taking Aura Light to a new level of economic growth with new ideas and strategies. Contributions of new ownership can be knowledge, contacts, and other complementary skills (Powell, 1987). As Olofsson et al (1997) suggested that value adding activities are the base for development and not capital. Aura Light had great and attractive operations and capital to fund this, but new influence was perhaps needed for further development.

4.5 Ratos

Contributions that Ratos is considering themselves to add are; business development support, networks, and financial and strategic expertise. They are trying to achieve active ownership through representation in the board of the portfolio company. Sources of value in percent are presented in Figure 29. The figure is based on Ratos own analysis of how their abnormal returns are created in investments.

72 percent of value enhancing activities comes from internal industrial development. Examples of these are efforts to increase sales and improve profitability margins. Ratos also
states that the growth in sales have been created through both organic growth and acquisitions (Ratos, 2012). Financial effects as capital efficiency and cash flows are contributing with approximately 32 percent of the value. An example of a contribution here is the improvement of financial efficiency of inventories, accounts receivable, investment efficiency, taxes etc. The negative contribution to value of –4 percent is a product of multiple arbitrages. Ratos own example of this is when they are selling for lower multiples than those at the time of acquisition. Ratos aim is to make a divestment when a goal is reached and when the company believes that their ownership is not contributing with continues value. The holding period is never strictly decided upon, but according to Ratos the average holding period is eight years (2012).

4.5.1 Euromaint

Euromaint was founded in 2001, and originates from the Swedish stately owned railroads. The company was acquired by Ratos in 2007 from the Swedish government. Current operations can be found in Sweden, Belgium, Holland and Germany.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euromaint Group Ltd</td>
<td>Ratos</td>
<td>2007</td>
<td>Europe</td>
<td>Rail-transport</td>
</tr>
</tbody>
</table>

The aim for Ratos with Euromaint is to improve profitability through efficiency measures, to achieve organic growth that is larger than the growth development of the market, and through acquisitions and organic initiatives to be present in the restructuring in the European train maintenance market (Ratos, 2012).

Important events since the acquisition:

- Reorganizing of all subsidiaries in 2007. Euromaint Industry employed 60 persons while Euromaint Rail has made reductions in the workforce.
- The shift in ownership came with a cost of 19 million SEK for Euromaint, this was accounted for in 2007.
- In 2008, Euromaint took a step for establishment in the Baltic countries through opening of a workshop.
- 64 new employees was the result of an acquisition of workshops from Husqvarna in 2009. The company fired 36 employees in Hallsberg the same year, due to reduced demand in the region.
• Euromaint bought EISAB, energi och industriservice Ltd, and a workshop from Skandiatransport which generated in a total increase in employees and revenues by 60 employees and by 152 million SEK.

• A deal was made in 2009 concerning a future acquisition of RSM, the largest maintenance company of railroad vehicles in Germany.

4.5.1.1 Number of Employees
The number of employees in Euromaint increased from 2005 to 2010. Under 2010, Euromaint acquired several companies, both in Sweden and other Nordic countries, which increased the number of employees by 42 percent. The largest acquisition of the year was the takeover of the German company-group named RSM with approximately 800 employees.

![Euromaint Number of employees](image)

Figure 25 Source: Amadeus and own calculations. Acquired in 2007

4.5.1.2 Operating revenue
Operating revenues of the company was significantly low in the year of the buyout when compared to operating revenues in other years in our observation period. The main reason of this low number was investments on new technology, new business, and new management. It increased the following years when the businesses and changes were established.
4.5.1.3 **Net income**

The figure below demonstrates the net income of Euromaint before and after it has been bought out. The information in the chart shows that Euromaint’s net income was higher before the acquisition. Declines in net income in 2007 and 2010 were results from investments made in order to develop the business both in Sweden and other countries.

4.5.1.4 **Return on Assets & EBITDA-margin**

Figure 28 shows a sharp increase after the buyout and a decrease in 2010 in the ROA and EBITDA-margin in Euromaint Ltd. In 2008, the ROA increased by 3.4 percent units, but it decreased by 8.7 percent units in 2010, due to investments made by the company. Similar movements are observable in the EBITDA-margin, where Euromaint faced a sharp up-turn in 2008 and a down-turn in 2010. This can be interpreted as that the operations in the company were profitable in 2008 and unbenefficial in 2010, due to market prices, currency risks and
higher personal costs. Moreover, high market prices, restructuring costs, higher personnel costs and high cost that emerged from damage caused by the winter led to a negative development of ROA and EBITDA-margin of Euromaint in 2010.

![Euromaint ROA & EBITDA-Margin (%)](image)

Figure 28 Source: Amadeus and own calculations. Acquired in 2007

### 4.5.2 Interpretation of results for Ratos

Ratos is a great example of how selective private equity firms can be when looking at potential portfolio firms. As Fredriksen 2003 stated, the selection process can be critical to if a deal is going to be successful or not. Ratos has implemented this statement into their investment process and is very selective and require high returns. This in combination with other requirements, like that they have to be the only or one of few potential buyers, gives us the picture of how careful and well analyzed the investment process has to be for successful investments.

The fact that 70 percent of all acquisitions are self-generated implies that Ratos is choosing few firms to invest in with great growth potential, which through mergers and new add-on acquisitions grow and yield greater returns. Ratos is identifying factors that results in high value-add-on, and then works to achieve these values by supporting the portfolio firms both through active ownership and with capital. When looking closer at their stated ways to create value, one can quickly identify that Ratos is concentrating much on non-capital adding activities as strategic changes, management support, and networks to improve performance with the knowledge and expertise available in Ratos.

This is very important for further development of a company, because if the need for capital is small, than the need for better management is an obstacle that has to be removed and worked with (Fredriksen et al, 1997). Euromaint is a good example of how Ratos is managing to find
suitable investments in a growing and newly deregulated market. Big strategic changes were made in the company and attempts to reduce costs and to encourage growth were made early in the holding period. Euromaint managed to grow mainly through acquisitions, but initiatives to penetrate new markets are also recognized. The clear example of this is the establishment efforts in the Baltic countries.

When looking closer at the different ratios, we can identify a strong growth development in most of the ratios since the acquisition. The massive investments in 2010 which were heavily weighted in the financial reports can be interpreted as a new effort for growth and further development. A new CEO was also appointed the same year, this confirms the theory of further development just mentioned. New management combined with new investments can generate new and more value to an already growing firm (Rogers et al, 2002).

4.6 **EQT partner**

EQT was founded in 1994 by Investor Ltd, and they invest in companies in Northern and Eastern Europe, Asia and the US. EQT has with its financial activities a unique industrial approach and a high level record of delivering superior returns overtime (EQT homepage). EQT is one of the leading private equity firms operating in Sweden.

EQT, Investor Ltd and the Wallenberg companies have a joint relationship, although EQT is financially and operationally an independent private equity firm. The firm currently manages one Infrastructure Fund which was launched in 2008 with capital commitments of EUR 1.2 billion, to meet the demand for new managed infrastructure. The fund is allowed to make investments larger than EUR 5 billion, with discrete investments in between EUR 100 million to EUR 1 billion in transaction values (EQT, 2009).

EQT's funds have all focused on growth, and creation of long term value in their portfolio companies. The first step after the buyout is to employ new board of directors, with a chairman, who is an industrial advisor with a management background sourced from the EQT industrial network (EQT, 2009). EQT expects the managers and board members of the acquired company to act as partners and co-owners. In order to improve its governance, EQT share its interest with the board of directors and the management. Furthermore, by having good management skills, a convenient decision-making process and EQT’s value creating strategy prepares and alters the portfolio company into market leaders.
4.6.1 **Value creation strategy**

The main reason behind the company’s huge range of successful investments and divestments is that EQT grounded its investments on “value-building processes” such as: industrial growth, creation of long lasting value and positive returns on investments. EQT has struggled to achieve high growth, long lasting value in its portfolio companies and with how to move the company forward (EQT, 2012).

More than half of the value created by EQTs acquired companies attributed to improvements and development. Below follows a description of some key measures of value creation (EQT, 2012):

- **Sales growth**- rising sales through acquisitions and internal growth
- **Operational excellence, improving margins**- increasing profitability and productivity through benchmarking and valuation methods.
- **Strategic repositioning**- to create a strong base for rapid expansion, invest in future technologies and exit from the “non-core businesses”.
- **Market and production expansion**- search for new customers and make improvements in the existing products in their respective existing markets.
- **Internationalization**- main advantage of EQT, broad international network.
- **Bolt-on acquisitions**- develop the portfolio company by acquiring the companies with the same or matching products and expertise
- **Optimizing capital structure**- generating a competent capital structure and organize the developed company for sale.

4.6.2 **Interview with EQT**

Stefan Glevén, CFO at EQT, was the contact person of EQT with whom we had a telephone interview with. The conversation began with Glevén giving us short facts about Swedegas and his position, and then he continued to answer our questions. According to Glevén, the main idea behind the investment was that Swedegas’ four minority shareholders; E.ON Ruhr gas, Statoil, Dong energy and Fortum, decided to sell the company. There were no financial problems, but some operational. To answer our first question about the clear objectives behind the cooperation, Glevén argued that Swedegas is a different kind of company, and cannot be
compared to the hotel chain Scandic for instance that lends hotel rooms. Swedegas can be seen as a pipeline that transports natural gas, and is an infrastructural business. He continued that when EQT invest in other companies, it always focuses on improving productivities, business development and growth of the company. We are absolutely looking at possible improvements in products, but most of all, we try to find new areas to make the company grow, he stated.

Stefan Glevén believes that the objectives have been met already, just two year after the buyout. According to him, the company is setting up an operation plan and they deliver according to the plan. Furthermore he argued that Swedegas is regulated by the Swedish energy market inspectorate and holds government concessions for its network. Glevén explain further, that Swedegas is a type of small medium sized company with 22 employees (Today 25). Restructuring and revision was not necessary in the company over time, but we have employed new people in communication and business development, and there is no part of the company that has been sold, he continued. Glevén argues that, there are no differences in terms of corporate governance in EQT´s portfolio companies. They are active in all their companies regardless of the size. EQT are focusing both in financial and operational factors.

4.6.3 Swedegas

Swedegas is the owner and largest supplier of gas located in southern and western Sweden. Around 2 percent of Sweden’s total energy supply comes from gas. Although in southern and western parts, which are covered by a gas transmission network, gas supply makes out approximately 20 percent of Sweden’s total energy supply. Swedegas’ revenue was around SEK 218 million before the buyout in 2008 (EQT, 2009).

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedegas</td>
<td>EQT</td>
<td>2010</td>
<td>Sweden</td>
<td>Energy</td>
</tr>
</tbody>
</table>

In 2011, Swedegas acquired E.ON´s high-pressure pipes for natural gas in Skåne, Småland and Halland, and thus became the sole owner of natural gas in Sweden (Swedegas, 2012).

4.6.3.1 Interview with Swedegas

We chose to interview Lars Gustafsson, CEO of Swedegas, who held the same position in the company before the buyout. Due to limited time, both parties agreed to conduct the interview by email. Lars Gustafsson began by explaining that the situation of the company at the time of buyout was and is still stable. He continued that the business is regulated by the
Swedish energy markets inspectorate and holds government concessions for its network. The main reason behind the deal was that the company had four minority shareholders such as; E.ON Ruhr gas, Statoil, Dong energy and Fortum from various countries. Shareholders of the company had lost interest in Swedegas’ activities. Lars Gustafsson argues that the main motive behind the investment was to develop the company, and increase EBITDA. Another objective was also to broaden operations with new businesses that may be linked to current business activities.

Lars Gustafsson believes that the goal has been met very well and over his expectations. He further explains that the buyout of further infrastructure from E.ON showed that restructures made by EQT have been of a financial nature that primarily had to do with how they have structured their financial investments. No business areas have been sold in the company. Furthermore he mentioned that after the acquisition, the core business is maintained and developed and business development activities are needed in other areas such as biogas. He believes that EQT is a very active investment company. They have a standard structure for how to manage and control their portfolio company, he continued. EQT partners principally focus on market and financial operations. Through their staffing of the board, Swedegas have been able to take advantage of EQT’s network. Besides capital, EQT contributed with its control mode, contacts with other companies and potential clients.

4.6.4 Scandic Hotels

Scandic is the largest hotel chain in Nordic Europe with 132 hotels, which they control through their headquarters in Stockholm, Sweden.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scandic</td>
<td>EQT</td>
<td>2007</td>
<td>Nordic countries</td>
<td>Hotel Chain</td>
</tr>
</tbody>
</table>

The company was acquired by EQT partners Ltd from Hilton Hotels Corporation in 2007. Scandic’s revenues were approximately EUR 66 billion before the buyout, with around 5800 employees (EQT, 2007).

The actions performed by Scandic after the buyout are:

- Scandic bought eight new hotels after the buyout, three in Sweden, three in Finland and two in Denmark. At the same time the Scandic planned to sell the limited
partnership in Racketen Alvik and the real estate company Hazeliusbacken, which later in 2009 once again merged with Scandic.

- In 2008, Scandic acquired shares in Skoghöjd Ltd in Södertalje, Sweden. According to Scandic’s annual report, Scandic Hotels signed a franchise agreement with Stora Hotellet in Nyköping. In the same year the company initiated Scandic Sustainability Fund that will reward people who contributes to a more sustainable world.

- During the first half of 2009, Scandic acquired operations in Föresta Hotel-, conference and restaurant in Stockholm, and the company also signed a franchise agreement with Design Hotel in Värnamo, Sweden.

- During the year of 2009, the hotel developed its business and signed an agreement to run even more hotels in Stockholm, Kista and Skåne. New hotels were launched and the subsidiary owned companies like; Scandic Hazeliusbacken Ltd, Hotel Scandic Ariande Ltd and Scandic Management Ltd, merged with the company during the 3rd quarter of 2010.

- During 2011, the company introduced a new CEO and opened a new hotel in Blekinge and signed a franchise agreement with Hotel West in Arvika, Sweden (Scandic AB, 2010).

4.6.4.1 Number of employees

The figure below shows that the number of employees has increased after the buyout in 2007. Scandic opened eight new hotels in 2007, which increased the need of more employees in. The financial crisis affected hotel chains negatively and a decrease in the number of employees was the result of this during the years of 2009 and 2010.
4.6.4.2  Operating revenue

Operating revenues of Scandic has been stable during the years of 2006-2010, except for 2008, in which operating revenues reached the lowest level. The reason of the low levels of operating revenues was a result of the financial crises and the decline in demand for hotel services.

4.6.4.3  Net income

Net income of Scandic was around zero in the time of the buyout, and as the table shows, there is no profit in 2008. After the financial crises, Scandic recovered slightly in 2009 and the company managed to show a positive result in 2010. This was achieved by an increase of room prices and a decrease of the variable costs (Scandic, 2010).
4.6.4.4 Return on assets & EBITDA-margin

The return on assets of Scandic has decreased in 2007 and 2008. Once again the main reason of this downturn was the financial crises and the low level of net income. In addition, the increase in demand for hotel services and implementation of sales- and marketing activities in 2010 contributed to a higher ROA ratio for the company. Comparing to ROA of Scandic, EBITDA-margin has decreased more due to increases in total revenue and the amortizations of their loans during 2009 and 2010.

4.6.5 Interpretation of results for EQT partners

As we mentioned above the value creation strategy of EQT partner is to exit from a portfolio company, when it became mature. The main aim of EQT is to invest in companies with ggod growth opportunities and to create long lasting value. From our study of EQT’s portfolio
companies we summarized that the company’s first action after the buyout is to change the management team of the company. Furthermore, active ownership is one of the most important aspects behind their success in investments as pointed out by Steven Glevén, the CFO of EQT partner. Cooperation between EQT and its portfolio companies, Swedegas and Scandic, is consistent with existing theories about how the work process of such collaboration is performed. Since Swedegas and Scandic hotels were efficient companies before the buyout by EQT, they did not require any restructuring. EQT did not need to follow all steps of the value creating process, such as; improvements in productivity and sales in order to increase operating revenue (Fredriksen, 2003). However, in order to develop and move the business further, with Scandic, EQT acquired more hotels in the very first stage of its investment and improved the hotel service. This may count as one of the reasons of how EQT managed to produce development in Scandic in just one year.

After both EQT and Swedegas interviews, we noticed that both companies have the same understanding of what happened in the company, financially as well as operationally. EQT followed its operation plan of value creation which is; growth, increase profitability and productivity, develop the business geographically, search for new target customers, and employ more people. The increase in employment has only been observed in Swedegas.

Corporate governance by EQT is executed in a similar way in both small and large portfolio companies. They are active and take on a role as a leader in all of their portfolio companies, regardless of the size. EQT is operating entirely through the board via a representative and EQT is involved in discussions of any kind in its portfolio companies as Glevén stated. EQT developed Swedegas both financially and operationally.

Scandic Hotels had also experienced good growth in and before the time of the buyout. In order to increase the business and its service, Scandic acquired more hotels and increased the number of employees. Scandic is a middleclass segment hotel, and during the crises they faced a sharp economic downturn if compared to luxury and budget hotel chains in terms of revenues, net income and ROA. The EBITDA-margin, which measures a company’s operating profitability and excludes depreciation and amortization, increased while other financial factors decreased. Furthermore, net income of Scandic was not affected as strongly as operating revenue, due to the flexible cost structure of the company. This makes it easier to quickly adapt to the lower volumes (Scandic, 2008). The company recovered slightly first in 2010 after the financial crises, mostly because of increasing demand of hotel services. Other
factors that improved Scandic’s financial ratios in 2010 were strategic acquisitions of additional hotels and the decrease in number of employees, which was made in order to minimize expenses.

4.7 Altor Equity Partners

Altor Equity Partners was founded in 2003, and they base their investments in companies operating in the Nordic region. The headquarters of Altor is located in Stockholm, Sweden. Altor normally invests in companies with annual revenues between € 50 million and € 500 million (BusinessWeek, 2012). Besides capital, the firm invests large amounts of its own resources in partnership efforts with the management to build long lasting value in their portfolio companies. Altor Equity partners offer substantial resources to their portfolio companies to ensure that the improvements they make are sustainable for upcoming years. In the time of exit from a portfolio company, Altor tries to leave the company in the strongest possible strategic position with strong earnings and cash flows in order to meet challenges and new opportunities (Altor, 2012).

4.7.1 Investment strategy and value creation

Altor is stating three key areas as the main tools for evaluation of potential investments. These three are:

- The attractiveness of the industry – An analysis of the products and possible substitution trends, base of customers and suppliers, entry difficulties, and the competitors in the industry of interest.

- The Market position – An analysis of various market segments and current/historical market shares. Conducted analyses on this field are used to identify strengths, weaknesses and improvement opportunities.

- Potential for value creation – Identification of sources of value creation potential in growth in revenues and efficiency measures taken with capital and costs.

Investment opportunities are discussed on a weekly basis and are carefully evaluated by several parties before an investment decision is taken. An investigation carried out by Altor in 2008 shows that their combined portfolio companies that were held more than two years have generated a growth in EBITDA of approximately 105 percent (Altor, 2012). From the
information based on their webpage, there are three main issues to concentrate on in order to achieve this high growth:

- **Production of a value creation road map** – A strategic plan is formed for development goals of the portfolio company through collection of facts that are used to create a common view on competition, performance and opportunities. This is made as soon as possible after thebuyout by representatives from Altor and the company’s management. Opportunities are looked upon by means of benchmark analysis against excellent performing companies. The next step in the process is to prioritize realized strategic initiatives within growth in revenue, cost and capital effectiveness. This is scheduled in a five year plan.

- **Reallocation of resources and skills** – Altor is supporting the portfolio company’s management via informal communication and through their presence in the company board. External human resources are chosen into the board, these members are selected because of their experience, ambition and sector/industry background. Altor can also step in and add resources in the management team to complement them with additional skills and experience.

- **Execution of the plan** – Through complete commitment by both Altor and the portfolio company, the plan is executed and value creation is received.

### 4.7.2 Interview with Altor

Jesper Eliasson, CEO at Altor equity partners was our respondent in the company. Eliasson began explaining the situation of pharmacy Hjärtat in the time of the buyout. He mentioned that in order to attract foreign pharmacy chains to open new pharmacy stores in Sweden, politicians decided to deregulate the pharmacy market, and Altor Fund III bought two of eight previously state-owned clusters. Therefore, the main objective behind the investment in Pharmacy Hjärtat was to increase profitability and number of stores in Sweden. Eliasson add that, Altor administer capital from institutional investors such as AP3, Skandia Liv and Harvard University. Assessments needed are that there should be growth potential and efficiency improvement possibilities (including purchase price) for the investment to be successful and to generate returns. Eliasson believes that the goal behind the investment has been met, and pharmacy Hjärtat is on the right track in a number of areas such as; growth,
product mix and better purchase prices. Eliasson argued that the investment was done without any restructuring or selling of any parts of the company. He continued explaining that Altor has a number of representatives on the board and that they are working with the companies in specific projects as well. Altor has its main focus on improvement possibilities in respective portfolio company, which in turns leads to improvements in the financial ratios. Finally, Eliasson summarized that the efficiency of store operations has improved through reengineering of processes and best practice sharing.

4.7.3 Apoteket Hjärtat

Pharmacy Hjärtat is a Swedish pharmacy chain owed by Altor, and it is Sweden’s second largest pharmacy chain. The company had 250 pharmacies in Sweden before the buyout in 2010, which increased by 50 pharmacies after the acquisition during the time period of 2011-2012. During 2011, pharmacy Hjärtat acquired the pharmacy operations of Tamro (Apotek 1) and Åhléns (Pharmacy Hjärta homepage, 2012).

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmacy Hjärtat</td>
<td>Altor Equity Partners</td>
<td>2010</td>
<td>Sweden</td>
<td>Medical</td>
</tr>
</tbody>
</table>

According to Eliasson, CEO at Altor, the main reason behind the investment was to develop the pharmacy chain both in Sweden and internationally. Hjärtat changed its strategy to having a broader product range, better services, wiser opening hours, and more personalized guidance than what customers were used to. Moreover, by open more stores, the company contributed with more available pharmacies to the people.

4.7.4 Byggmax AB

Byggmax is one of the leading low-price retail companies of building material in the Nordic countries. The company was created in 1993 and has opened up more than 80 stores. ByggMax has had a strong market position in the Swedish do-it-yourself market for a long time.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>ByggMax Group AB</td>
<td>Altor Equity Partners</td>
<td>2006</td>
<td>Nordic Countries</td>
<td>Retail chain</td>
</tr>
</tbody>
</table>

The company was bought out by Altor in 2006. Byggmax had 27 stores in Sweden at the time of the investment, but its vision was and is to become the world’s leading builder’s merchants. Byggmax’s financial objectives is to grow with an increase of more than 15 percent per year.
in revenues through a expansion of stores and an increase in sales, while maintaining operating margins in relation to net sales of over 11 percent. The expansion has been achieved with profit through a clear concept of a pro-growth business model, efficient processes and a strong corporate culture based on high cost consciousness.

![Number of Stores](image)

Model 4  Source: Byggmax homepage, edited by authors

As visible in model 4, in order to increase its profitability, Byggmax began to develop their businesses geographically. Through introduction of its business in Norway in 2007 and Finland in 2008, Byggmax showed that the concept can be established successfully in other markets. After the Buyout in 2006, the number of stores increased both in Sweden and the Nordic countries which is characterized by positive investments.

4.7.4.1  **Number of employees**

In the following figure, the number of employees at Byggmax Ltd is presented. The company had a higher number of employees in the time of the investment than the years before and after the buyout in 2006. To decrease the cost of employees, Byggmax decreased its number of employees after the buyout in 2007 and it increased gradually in the following years.
4.7.4.2 **Operating revenue**

The operating revenue of Byggmax increased gradually after the buyout. The reasons behind the higher revenues are increases in sales and number of stores.

4.7.4.3 **Net income**

The variations of net income in Byggmax depended on variable costs of the company. Net income was lower before the buyout and higher after the financial crisis in 2008. An improvement of delivery conditions is the main reason behind the high net income in 2009-2010 (figure 35).
4.7.4.4 Return on assets & EBITDA-margin

As figure 36 illustrates, the profit of the company was very low, almost below zero, after the company had been bought out. Furthermore, Byggmax’s EBITDA-margin was higher due to lower operating expenses and higher profitable operations in 2006 and 2009. The company faced lower EBITDA-margin in 2007 and 2008, as a result of high costs and low profits. Short after the financial crisis, Byggmax increased its ROA and EBITDA through opening of new stores in Sweden, Norway and Finland.

4.7.5 Dustin Group Ltd

Dustin was founded in 1984. The company is the leading Nordic internet retailer of electronic equipment such as software, accessories and services. Dustin has its main focus on business to business (B2B) customers but also on service to consumers. The company’s primary skills are
a wide product range, efficient logistics, a strong sales force and a market leading customer service. In 2006, Altor acquired 80 percent of the company from its founders with 156 employees and MSEK 2.4 in turnover.

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dustin Group Ltd</td>
<td>Altor Equity Partners</td>
<td>2006</td>
<td>Nordic Countries</td>
<td>Retail chain</td>
</tr>
</tbody>
</table>

Dustin was a well functioning company before the buyout with high growth in Sweden. The main reason behind Altor Equity Partner’s investment in the company was to develop Dustin geographically and increase its product/service offerings (Dustin Group Ltd, 2007). In addition to financial resources, Altor brought in considerable expertise in order to develop the company’s offerings and to accelerate further growth in Dustin Ltd. After the buyout in 2007, Dustin Ltd acquired Swedish internet equipment distributor Take Care Marketing (TCM), which in turn improved their commercial software. In the same year, Dustin Ltd acquired Danish Computer store A/S with its 100 employees. This was the first stage in the Nordic expansion and Dustin Ltd’s strategic focus. During the years of 2007 and 2008, Dustin developed very well, both financially and geographically. In the last quarter of 2008, Dustin Ltd opened a new logistic center in Stockholm in order to offer customers a wider range of services. Moreover, in 2009 the company faced an increase in sales of mini-pc:s and a decrease in sales of televisions. In the same year, Dustin Ltd launched Dustin Home in Denmark and Norway. They also launched Dustin.no in order to concentrate on sales on the Norwegian business market. Under 2010, sales increased by 12.8 percent units, which meant that the company continued to gain market shares (Dustin Group AB, 2007).

4.7.5.1 **Number of employees**

Figure 45 contains information about the number of employees in Dustin during the time period of 2005-2010. In 2007, the number of employees more than doubled, due to financial and geographical development of the company, and profitable investments.
4.7.5.2 **Operating revenue**

Dustin reached the highest level of operating revenue in 2007, due to improvements of its service, which in turn led to increased sales of the company’s products. A reduction in sales and an increase in variable costs led to a decrease in Dustin’s operating revenues after the financial crisis of 2008. Thereafter, the numbers were stable during 2009-2010.

4.7.5.3 **Net income**

The company’s net income increased rapidly in 2007 after it had been acquired. It means that Dustin managed to make profitable investments. The financial crisis led to a decrease in profits of the company in 2009, but after a recovering trend in 2010 Dustin reached the highest profit level in the observed period.
4.7.5.4 Return on Assets & EBITDA-margin

Several investments made by Dustin affected the net income negatively in 2006; however these investments led to a higher EBITDA-margin in 2007. Dustin increased its revenue in 2007, as a result of a successful investment in TCM. Decreasing expenses and high profits were the main reasons behind the increase in EBITDA-margin in 2007. In 2010, EBITDA-margin increased by 4.2 percent units. This increase can be interpreted as a result of the investments made in Denmark and Norway (Dustin, 2010) (Figure 40).

4.7.6 PIAB Group Holding Ltd

PIAB is the global leader in industrial vacuum technologies. The company was established in 1951 by the Tell family, with a wide range of products in the field of vacuum and measuring
techniques. The company took the name of PIAB after the development of its first product, which was a drawing compass that simplified work for designers (PIAB, 2012).

<table>
<thead>
<tr>
<th>Portfolio firm</th>
<th>PE firm</th>
<th>Year of acquisition</th>
<th>Operational in</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIAB Group Ltd</td>
<td>Altor Equity Partners</td>
<td>2006</td>
<td>Nordic Countries</td>
<td>Vacuum Technology</td>
</tr>
</tbody>
</table>

The most important products of the company are vacuum pumps, suction cups and vacuum conveyor solutions. With the help of these products, PIAB managed to improve productivity and working environment of vacuum users in various industries. In August 2006, Altor Equity Partners acquired PIAB from the funders. From its headquarter in Stockholm, PIAB controls production facilities in Sweden and Singapore, and sale divisions in more than 15 countries worldwide. The main reasons behind the investment of Altor were the market leading product range, technological know-how and growth potential of PIAB (Altor, 2012).

4.7.6.1 **Number of employees**

After the buyout in 2007, number of employees increased rapidly due to substantial investments in sales and markets, which in turn increased the need for employees. Relocation of production to the newly established production unit in Singapore is also a major explanatory reason behind the high number of employees of PIAB in 2007 and 2008. Negative impacts on sales and earnings and the implementation of a new cost reduction program in 2009, led to a decrease in the number of employees, which remained unchanged in 2010 (figure 41).

![PIAB Number of employees](image)

*Figure 41 Source: Amadeus and own calculations. Acquired in 2006*
4.7.6.2 **Operating revenue**

Operating revenues of PIAB improved after the buyout, due to increased sales and productivity in the company. The number decreased in 2008 and 2009 because of decreasing sales in Europe that followed because of the financial crisis. PIAB reached the highest level of revenues during 2010 due to a rapid recovery from the financial crises in Asia and America and from an introduction of new products.

![PIAB Op. Revenue th EUR](image)

*Figure 42 Source: Amadeus and own calculations. Acquired in 2006*

4.7.6.3 **Net income**

Undesirable profit levels are visible in figure 43 after the buyout. Enormous investments made by PIAB during the years in Europe, Asia and America decreased the net income. In 2010, PIAB showed profitable results by the launching of a new sales company in India, and by the recovery of markets in Asia and America.

![PIAB Net Income th EUR](image)

*Figure 43 Source: Amadeus and own calculations. Acquired in 2006*
4.7.6.4 Return on assets & EBITDA-margin

As mentioned before, PIAB’s huge investments reduced revenues and net income of the company. ROA and EBITDA-margin have had similar movements in the observed time period. Cost reductions and product improvements are the main reason behind the sharp increase in EBITDA-margin and ROA in 2010. A great percentage growth of these two ratios that year is depended on the profit gain from the recovery of markets in Asia and America, variable cost reduction and product improvements in PIAB (figure 44).

![PIAB ROA & EBITDA-Margin (%)](image)

Figure 44 Source: Amadeus and own calculations. Acquired in 2006

4.7.7 Interpretation of results for Altor

Altor states that they are practicing active ownership through partnership with the management of the acquired firm. Analysis are made before the investment as mentioned above, the partnership in this case seems to be in the following manner; Altor wants to implement the results of the analysis and the management of the portfolio company should adapt to this and absorb their guidelines and manage the firm towards the new goals. It is also important that Altor involves the management of the holding firm in the production of a road map in an early stage. Working this way will make the process of value creation more efficient if it is implemented as early as possible as a part of a long term project. Another gain is that the management is feeling more as partners in this stated partnership. (Heel & Kehoe, 2005).

The growth potential that is needed for successful deals as stated by Fredriksen (2003) is investigated thoroughly by Altor in a variety of ways and sectors. One example of where Altor wants to grow is in revenues, and by looking on the sample firms above, we can see
clear improvements of operating revenues in all sample firms used from the date of buyout. This and other improvements have generally showed to generate value after two to three years in terms of increases in ROA and EBITDA-margin.

According to Macmillan et al (1987), the market position analysis is a good way to prepare for a successful investment and as their study has shown, experience in gaining competitive advantage and sustaining it is critical for a successful investment. Altor seem to put a lot of effort on this and it is reflected in the development of the selected ratios in this thesis. A steady positive development is noticed in all firms and if compared to portfolio firms of other private equity firms, one can see that the result is not varying as much as in the other ones. This can be a result of an excellent and extensive analysis process of the market and the industry.

Altor is represented in the boards of portfolio companies and has achieved great results through active ownership. The successful long term value creation can be explained as that active ownership is the largest source of improvement in operating performance and generated cash flow (Jensen, 1989).

When comparing the actions in the different portfolio companies of Altor, internationalization is one of the common factors. New markets are one way to achieve growth and with help of Altor, their network and expertise, globalization is easier achieved (Powell, 1987).

5 Discussion

To obtain a detailed picture of how private equity firms create value in their portfolio firms, we have compared relative theories in the subject with our findings in the empirical section. To justify the subject, we are once again pointing out that in 2011, 35 buyouts occurred in Swedish portfolio companies out of the total amount of 126 in Europe. This shows that a discussion about the Swedish private equity market is of international significance as well.

The break up strategy used in the past was very popular but due to the increase in price levels, a value creation strategy erupted as a new standard among private equity firms. None of the portfolio companies investigated in this thesis have been divided and sold in separate parts.

It is stated frequently in various descriptions that private equity firms invest in unlisted companies. This is however not a requirement. According to theories, private equity firms invest in public companies in order to transform them into unlisted firms because of control
issues. It is easier to control a private company than a public one, as explained in the thesis. One company in our sample was public prior to the buyout but it was transformed into an unlisted company as planned.

How about the time invested by private equity firms into their portfolio companies? Previous research shows a large variance in this when comparing different private equity firms to each other. Active ownership is important, but they are careful to not end up in the day-to-day operations, as stated by several private equity firms in our thesis. The holding period varies between three and ten years, but longer periods are usual. The majority of the investigated private equity firms have stated that they don’t have a specific or pre-set exit date to any of their portfolio companies. They are holding the firm until they have created enough value, or until they reach the point when they feel that they are not contributing with additional value necessary for the portfolio firm so that it can grow and develop even more.

Both private equity firms and theoretical researchers have stated that capital, value adding activities and active ownership is the base for development and growth. This is confirmed in the thesis, but we have noticed that capital-addition and other non-cash value activities goes together hand-in-hand. To achieve maximum value creation, both aspects are needed in an excellent weighted combination.

Before discussing other value-adding factors, we are going to discuss one of the most important processes; the pre-investment procedure. All our chosen private equity firms describe this as a critical part for success of the deal, or that this is a particularly selective phase. Massive analyses are performed and are investigating everything from issues dealing with competition to growth and development opportunities. They are striving for high returns and by choosing only a narrow number of firms; they can pick and focus on the best expected ones with most potential. An example of a frequent occurring issue to analyze is the market position and how to sustain it. Some firms use expressions as stable, while some use words as sustainable to describe the desirable investment and their competitive position.

When the selection phase is over and decisions about what firms to invest in are made, private equity firms create plans that describe what to do and how it is going to be done. They perform most of the changes and implementations in the beginning of the holding period. This has showed to give results several years later in terms of profit and return on assets, but these actions can affect the cash-flow measures negatively during heavy structural and strategic changes, or investments.
Growth is achieved either organically or through add-ons. When investing in one firm, the gain is not just that one firm, but endless opportunities of new add-on acquisitions and several other firms that can be baked into or is gained as a result of that one acquisition. If a private equity firm enters and buys out a company, than most often an expanding strategy is implemented in the portfolio company.

Private equity firms are using their attractive networks to tempt suitable portfolio firms. Enhancements in knowledge, skills, and expertise are gained by networks provided by the private equity firms. Networks are one value adding factor that is showing results in a very short time period after acquisition.

Partnership, cooperation, leadership and other terms have been used to describe the relationship between the management and the private equity firms. We feel that these terms are used in a somewhat vague manner and it is presented in our research that managers are following guidelines and implementations in a positive way, or a modification is made in the management team. They either fit the new strategy, adapt happily to it, or they get replaced. Most often, a common positive mind set is implemented in the management and then into the rest of the company. This was confirmed in the interviews conducted with both sides. The answers given were similar and a similar state of mind was noticed.

Active ownership seems to be the largest source of improvement for many firms in terms of operating performance. One way of achieving this is to implement new board members into the board. The reason behind this action is to control the firm and to improve experience and knowledge within the firm. Active ownership is mentioned to generate value in many forms. Nordic Capital mentioned that operational improvements are generating most of the created value, they achieve this mostly through active ownership. A result of our analysis is that several portfolio firms are encouraged to work more towards specialization. In a private equity firm’s perspective, this is done to relocate operations and products toward more profitable and potential growth areas and markets.

Globalization has been used as a tool in order to grow in new markets and in already established ones. This is not just a result of market gaining opportunities but also because of cost reduction opportunities.

Many of the investigated private equity firms are targeting the Nordic and Baltic region for their Swedish portfolio firms. One question that can be asked here is; are they targeting the
region to improve their market share there or is this a consequence of an cost reduction strategy? If they are opening up facilities and warehouses in Poland or Czech Republic in order to take advantage of their cheap labor and other low costs, a new opportunity of also using that strategic geographical position opens up. As mentioned in this thesis, they can use the resources already in use to grow and to introduce products in the domestic market as well. These sorts of investments were popular before the crises and we think that the development and expansion in the Baltic regions can continue and be attractive once again to Swedish companies after an eventual stabilization of the global markets.

In 2007, when the economy was at its peak, large investments were made in many of the portfolio companies. The private equity firms had no obvious reason to doubt that the current market situation would change in a near future, but when the global markets collapsed in 2008, investments were abandoned or postponed. Numerous of the weak years in term of the used ratios can be explained by huge investments and structural costs. These actions were taken in order to change operations towards a more profit, growth and development oriented strategy. This was the most common explanation to the general down turning trends in some of the investigated portfolio companies, but the 2008 financial crises have affected close to every firm negatively. We have chosen not to focus on explaining the less positive numbers during the financial crises, but they have been taken into account in this thesis.

We will shortly present some issues concerning the financial crises and contributions of the private equity firms to support their portfolio companies during these years. The private equity firms contributed with capital and adapted the strategies of the portfolio company to suit the market situation of that time. Operations that resulted from these strategies were: massive layoffs, a more cautious and limited investment approach, and other cost reduction activities. These cost reduction activities were used in general as a tool to grow in this very risky and turbulent time period.

6 Conclusion

The private equity market has developed into a major economic factor in recent years both in Sweden and internationally. The main aim for the private equity firms in a buyout is development of the portfolio companies through a wide range of operational and strategic methods in order to generate the maximum possible return on their investment.
Private equity firms invest in companies that hold a strong market position, act in a mature industry, and/or have growth potential. Sectors covered in this thesis have been the: vehicle, gas, hotel, health, food, retail and rail transport industry.

In order for a private equity firm to succeed in value creation in its portfolio company, they often concentrate on strategic and operational restructuring, which results in improvements in organic growth. This is made possible through capital, expertise and competence. The developed structure affects companies in a positive way concerning growth in sales and operating margins.

The majority of the portfolio companies used in our study seemed not to have a need for financial help, instead they needed help with operational improvements. All of the portfolio companies were financially stable with great growth opportunities before respective acquisition.

Development of the portfolio companies and their existing products has been noticed, but also penetration of new markets has been encouraged and achieved. Private equity firms have supported even more growth and development through various forms. They are often allocating new personnel into the board of directors; this is done to bring in more contacts, experience and knowledge. This generates improvements in sales, revenues, efficient production and complementary acquisitions. The private equity firms create value mostly through active ownership and excellent management skills.
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8 Apandex

8.1 Questions to Portfolio firms in Swedish

- Har du haft en chefsposition även innan uppköpet?
- Hur såg situationen ut för företaget vid investeringstidpunkten? (innan/efter)
- Vilka motiv låg bakom affären? (här menar vi båda för er och för PE bolaget)
- Har det funnits några klara mål under ert samarbete? (som tex. ökning av produktivitet och försäljning och sänkning av skuldsättningsgrad)
- Hur anser ni att dessa mål har uppfyllts?
- Har PE bolagen gjort några omstruktureringar i företaget, i så fall vilka?
- Har några affärsområden sälts?
- Finns det några affärsområden som behöver omarbetas?
- Hur aktivt tycker du att PE bolaget har varit? (t.ex. i form av styrelseredepresentation)
- Vilka typer av frågor har dem störst vikt i? (t.ex. finansiella, operativa)
- Tycker du att ni har kunnat dra fördelar av PE bolagets nätverk?
- Vad har PE bolaget bidragit med mer förutom kapital i företaget?

8.2 Questions to the portfolio firms in English

- Were you active in the company at the time of the investment?
- How was the financial situation of the company at the time of investment?
- What were the main reasons behind the deal?
- Have there been any clear objectives e.g. increase in productivity and sales with the collaboration?
- Do you think that these goals have been met?
- Which restructures has the PE firm done in the company - have any part of the company been sold?
- Are there any parts of the company that are in need of a restructure or change?
- How active has the PE firm been in form of board representation?
- What kind of issues are of most importance for the PE firm? (Financial, operational?)
- Have the company been able to take advantage of the PE firm’s established network?
- With what has the PE firm contributed with, besides capital?
8.3 Questions to PE firms in English

- Were you active in the company at the time of the investment?
- How was the financial situation of the company at the time of investment?
- What were the main reasons behind the deal?
- Has there been any clear objectives e.g. increase in productivity and sales with the collaboration?
- Do you think that these goals have been met?
- Which restructures have you done in the portfolio company - have any part of the company been sold?
- Are there any parts of the company that are in need of a restructure or change?
- How active have you been in form of board representation?
- What kind of issues are of most importance for you as a PE firm? (Financial, operational?)
- Have the portfolio company been able to take advantage of your established network?
- With what have you (PE-firm) contributed with, besides capital?