



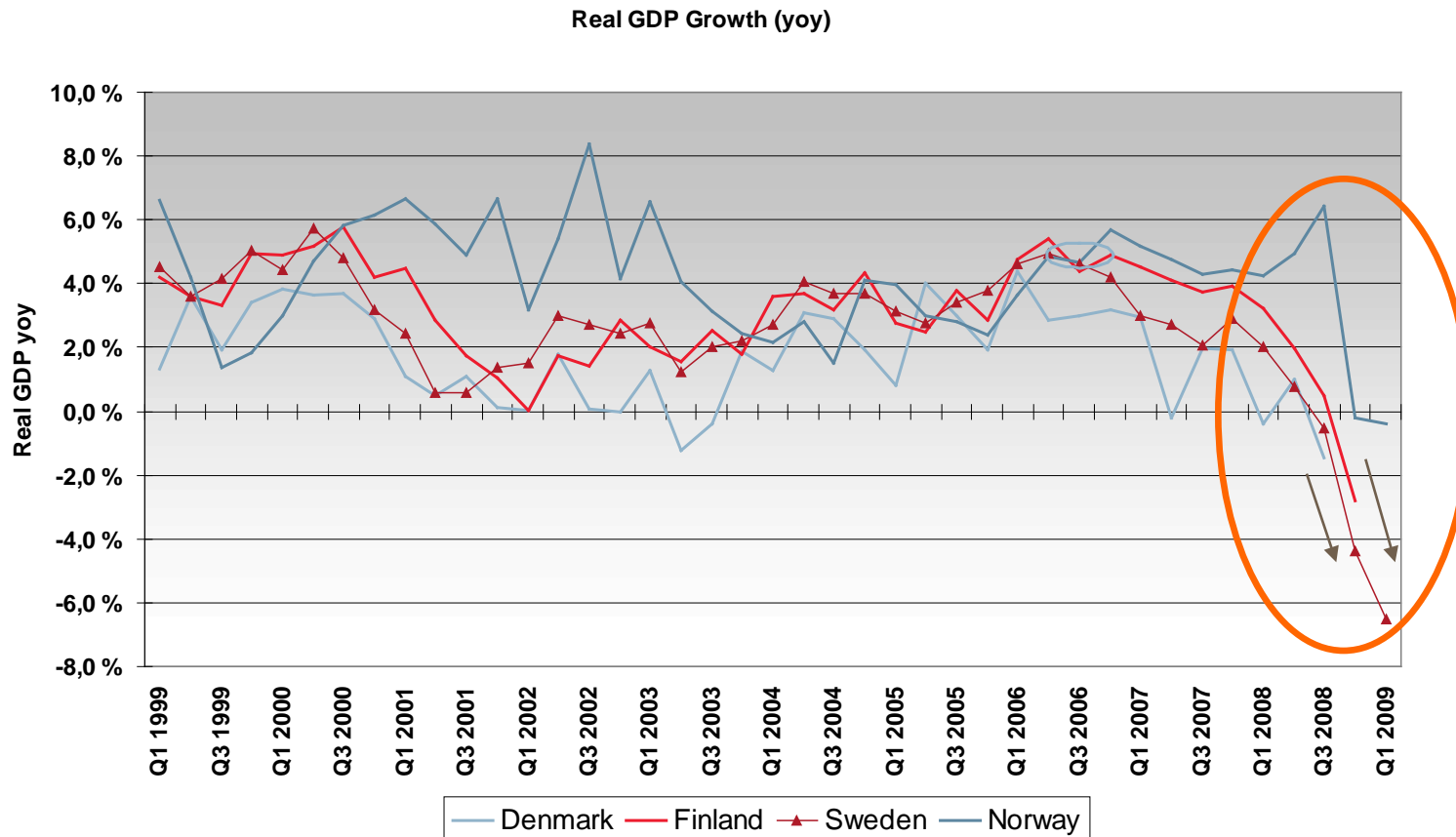
*Argentum's view on the current Nordic  
Private Equity Market*

June 22, 2009

# Agenda

- Gloomy outlook
  - Current economic situation
  - Harsh fundraising environment
  - Few deals have been made and the exit window has been closed for a while
- Green shoots
  - The stock market may lead the way
  - Superior funds will always be able to raise capital
  - Secondary indirect “players” provide liquidity to distressed LP’s
  - It’s always possible to exit superior Nordic cases
  - Nordic venture capital may yield improved returns in the years to come
- A recession isn’t necessarily bad for the Nordic Private Equity Industry
  - Poor 2009 fundraising is needed in order to mitigate capital overhang
  - Funds raised in times of poor economic outlook tend to over perform
- The winners will take it all

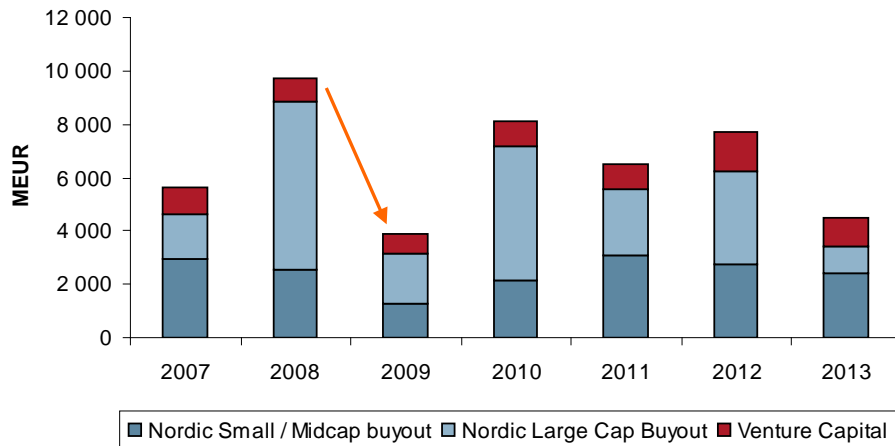
# Gloomy outlook - Current economic situation within the Nordic Region



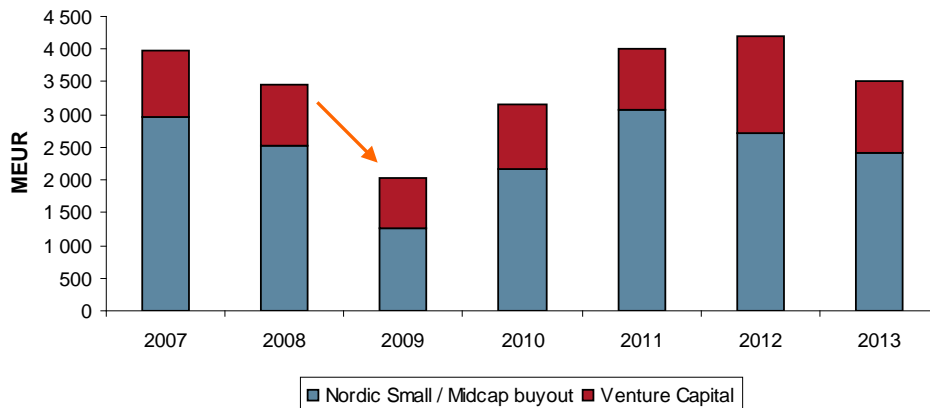
- The Nordic region is more vulnerable than most to the slump in exports triggered by the global recession. Swedish exports from companies such as Ericsson AB, the world's largest maker of wireless networks, and truck maker Volvo AB, make up about half its GDP. In Finland exports account for about a third of the economy.
- Household consumption is the main headache in Denmark, while Norway is somewhat outperforming its neighbours due to its natural resources and large government.
- **The economic situation in the region is bound to trickle down to private equity owned business.**

## Gloomy outlook - Harsh fundraising environment

**Nordic fundraising expected by Argentum**



**Nordic fundraising ex. Large Cap Buyout expected by Argentum**



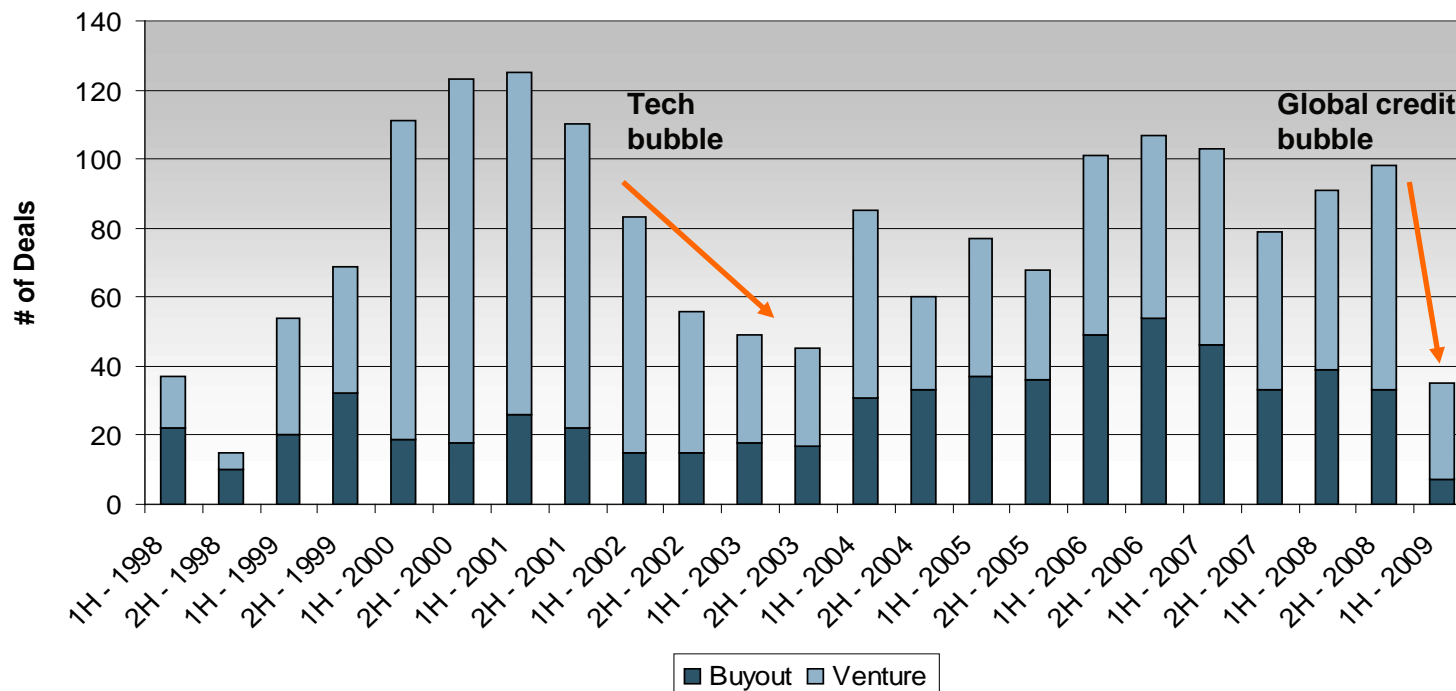
- The graphs on the right illustrate Argentum's previous and future expectations of GP fundraising within the Nordic region.
- Although the analysis doesn't take into account the probability of fundraising success a vast drop in fundraising is expected in 2009.
- Argentum believes fundraising will be worst for funds operating within the large cap segment.
- **If taking into account the probability of actually raising a fund (not just observations of firms that most likely will attempt to raise a fund) the picture would be even "gloomier".**

### There may be several causes to the decline:

1. Valuations of private equity investments are "sticky" downward, due in part to less frequent valuations, in contrast to public investment values which can fall immediately and are marked daily resulting in too large % of private equity investments in institutions portfolios.
2. The fundraising environment in the Nordic region has been strong in the latter years resulting in a "mean reverting" event.
3. **Some LP's are distressed.**

## Gloomy outlook - Few deals have been made and the exit window has been closed for a while

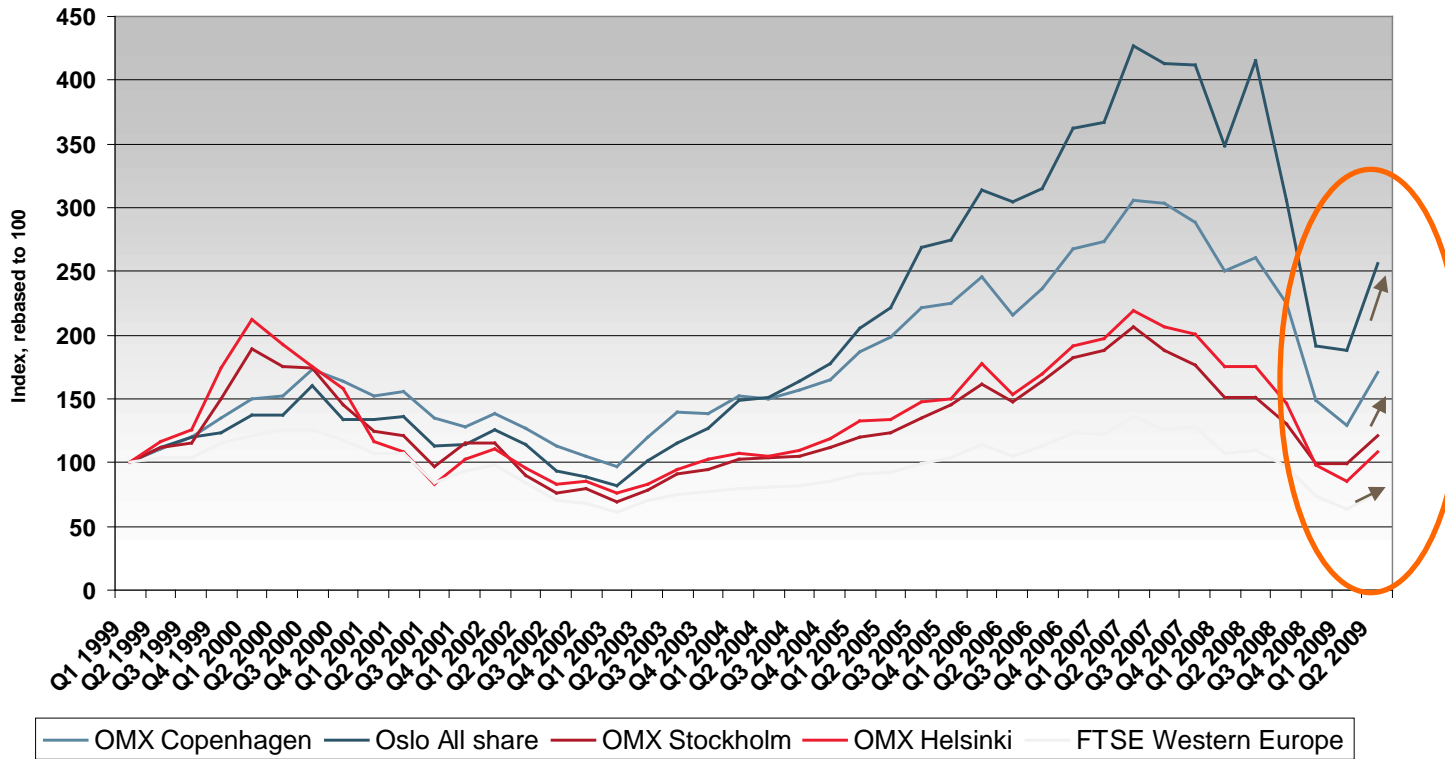
Semiannual count of Nordic Private Equity deal-making



- Historically most private equity deals (private equity firms acquiring companies) have been made close to or at the top of the economic cycle. It's bothersome that most acquisitions are made when companies most likely are expensive.
- The fall in private equity deal-making seen in the Nordic Region during 1H 2009 is massive and even greater than what was witnessed during the tech bubble. Bank financing has been hard to get by and private equity GP's have been waiting for prices to decrease further.
- **Thus far in 2009 the Nordic region has experienced the slowest deal activity in Europe.**
- *"With banks unable to offer debt packages at terms that would encourage interested parties to make strong bids, the exit market is going to be terrible in 2009". (Neil MacDougall, Silverfleet Capital)*

# Green shoots - The stock market may lead the way

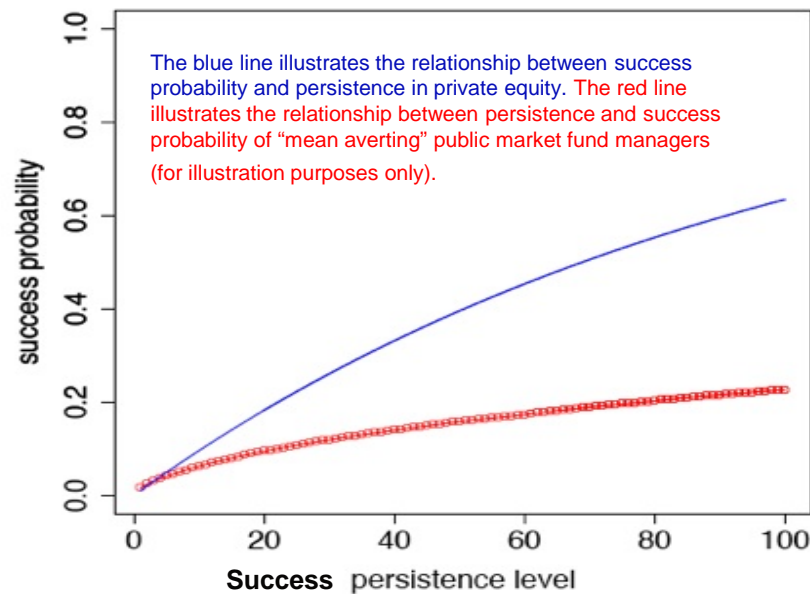
Stock indices



• **Some quarters (approx. 2-4) before an economic recovery there tend to be a surge in stock prices.**

- Since stock prices are the present discounted value of the future stream of expected cash flows the argument that higher stock prices would presage increased economic growth is reasonable. An increase in *anticipated* economic activity would result in increased expected future earnings and cash flows and thus trigger higher stock prices.
- Although the illustrated improvement of the Nordic stock markets may be a positive sign for the overall economy, it's in no way conclusive. The market may go back down again (thus telling us nothing about macroeconomic recovery), flatten out or continue to rise.
- The expectations priced into the stock market are the result of forecasts made by investment professionals who don't have a good track record in making such forecasts.

# Green shoots - Superior funds will always be able to raise capital



	P of bottom performance	P of medium Performance	P of top performance
Bottom Tercile	61%	22%	17%
Medium Tercile	25%	45%	30%
Top Tercile	27%	24%	48%

Random walk would produce a probability of 33%

- Teams boosting good track records tend to be able to raise funds when needed due to the well known performance persistence among good funds in the industry.
- Returns persist strongly across funds raised by individual private equity partnerships and a GP's track record is positively related to the GP's ability to attract capital into new funds. In contrast to the convex relationship in the mutual fund industry, this relationship is concave in private equity (thus better performing partnerships tend to grow proportionally less than average performing partnerships). (Kaplan. S, Schoar. A, 2003, Private Equity Performance: Returns, Persistence and Capital Flows, University of Chicago).
- Thus if you're an alpha creating manager you don't have to worry about fundraising problems.
- Successful Nordic Private Equity partnerships have been able to raise capital in the current harsh environment.

## Green shoots - Secondary indirect “players” provide liquidity to distressed LP’s



- Due to the massive growth in the Nordic private equity market over the last seven years investors have focused on building their primary portfolios.
- Nordic institutions are over-allocated in alternative assets. Nordic Life Insurers and Pension funds have already sold most or all of their listed equity holdings to comply with risk management requirements. Many such Nordic institutions have built primary private equity portfolios aggressively during the last few years and are now over-allocated in private equity compared to all other asset classes in a situation where liquidity is in great demand. When write-downs in their private equity portfolios were booked for 4Q 08, these institutions were in the need of realisations.
- **Argentum knows that many less sophisticated Nordic LP’s (and some sophisticated) are distressed and have liquidity issues.** Such institutions are even more in need of realisations. It’s crucial for the Nordic Private Equity industry that such LP’s are bought out of their commitments. This is where the importance of secondary buyers becomes even more evident.
- Significant international ownership. International investors, e.g. US based investment banks and institutional investors, have allocated quite heavily to Nordic private equity over the last few years. These are to a large extent also the same institutions who have sold listed Nordic equities through a “flight to security”. As for Nordic LP’s’ it’s critical that secondary buyers take over such institutions commitments since the alternative could be GP’s facing illiquid LP’s not able to support their commitments.
- **Sophisticated secondary buyers such as Argentum are providing liquidity to the market place, thus providing a service to the Nordic Private Equity community while making sound investment decisions.**



### January 2009

*Accent reaps near 3x return from trade sale*

- Accent Equity Partners sold Annas Pepparkakor, a Swedish cookie producer, to Belgian strategic investor Lotus Bakeries for an undisclosed sum reaping an almost 3x money multiple on the investment.
- Annas Pepparkakor was founded by two sisters in 1929 as a home bakery. It produces the traditional Swedish ginger thins. When Accent acquired the company in 2005 they had production facilities in Tyreso and Calgary, a main domestic market in Sweden and international distribution through IKEA. Headquartered in Tyreso, the company generates SEK 172m in revenues and has 69 employees.



### April 2009

*HitechVision reaps multiple and IRR at 3.4x and 82 % respectively*

- Through the last part of Q4 2008 and Q1 2009 HitechVision and the other owners of NDG negotiated a trade sale of the company to German classification society Germanischer Lloyd. The negotiations were concluded and the transaction was announced on March 31<sup>st</sup>, 2009, and the transaction closed on the 30th of April. This all-cash transaction prices Noble Denton at an enterprise value of GBP 140.6 million. The Fund has invested a total of GBP 8.8m in Noble Denton, and the agreed sales price of GBP 30.9m provides an excellent return both from a money multiple and IRR perspective respectively: 3.4x cost and an IRR of 82 %.
- The Norwegian based company Noble Denton is a premier provider of life cycle marine and offshore engineering services to the oil & gas, marine and renewable industries. With an established presence in all major oil & gas centers; including North & South America, Europe, the Middle & Far East and the development of new offices in emerging markets such as India and China, the Noble Denton name is synonymous with integrity and technical excellence.



### May 2009

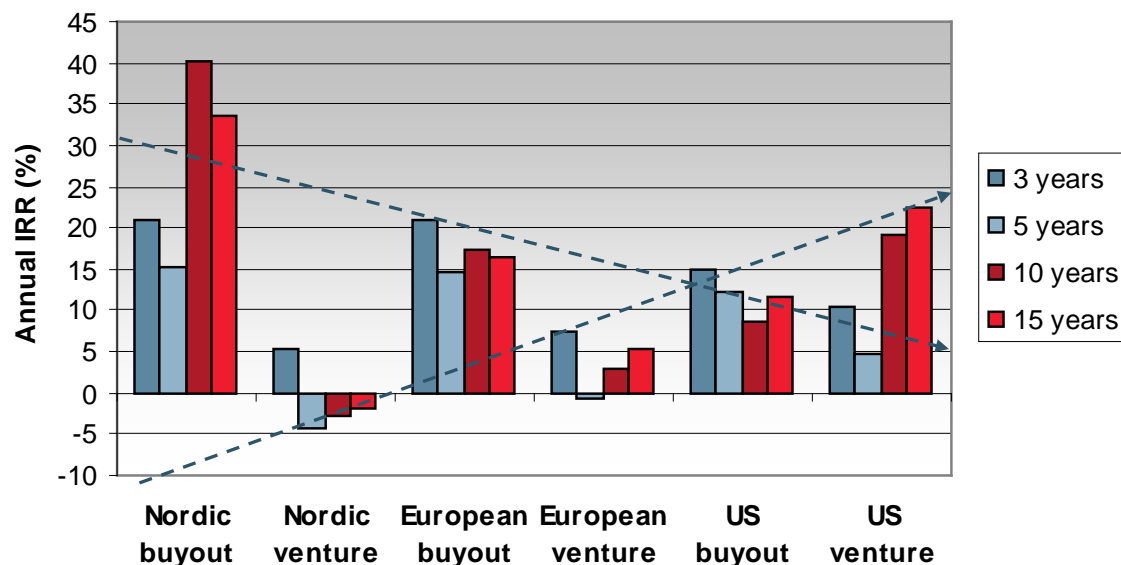
*HitechVision reaps multiple and IRR at 9.5x and 81,3 % respectively*

- On the 7th May the Fund's shareholding in Noreco was sold through a placement in the market at a price of NOK16.00 per share, bringing total gross proceeds from the Fund's Noreco investment to about NOK 360 million. Net proceeds after repayment of debt are NOK 198m. The investment has yielded a gross IRR of 81.3 % and a money multiple of 9.5 times on invested equity.
- Noreco is a fast growing Norwegian, independent oil & gas company. The company's focus is to explore, develop and produce oil & gas in the North Sea. Since incorporation in 2005, the company has grown rapidly through license rounds and acquisitions. Noreco operates in Norway, Denmark and United Kingdom, and employs over 75 oil and gas professionals. Noreco is listed on the Oslo Stock Exchange (ticker NOR).

## Green shoots - Nordic venture capital may yield improved returns in the years to come

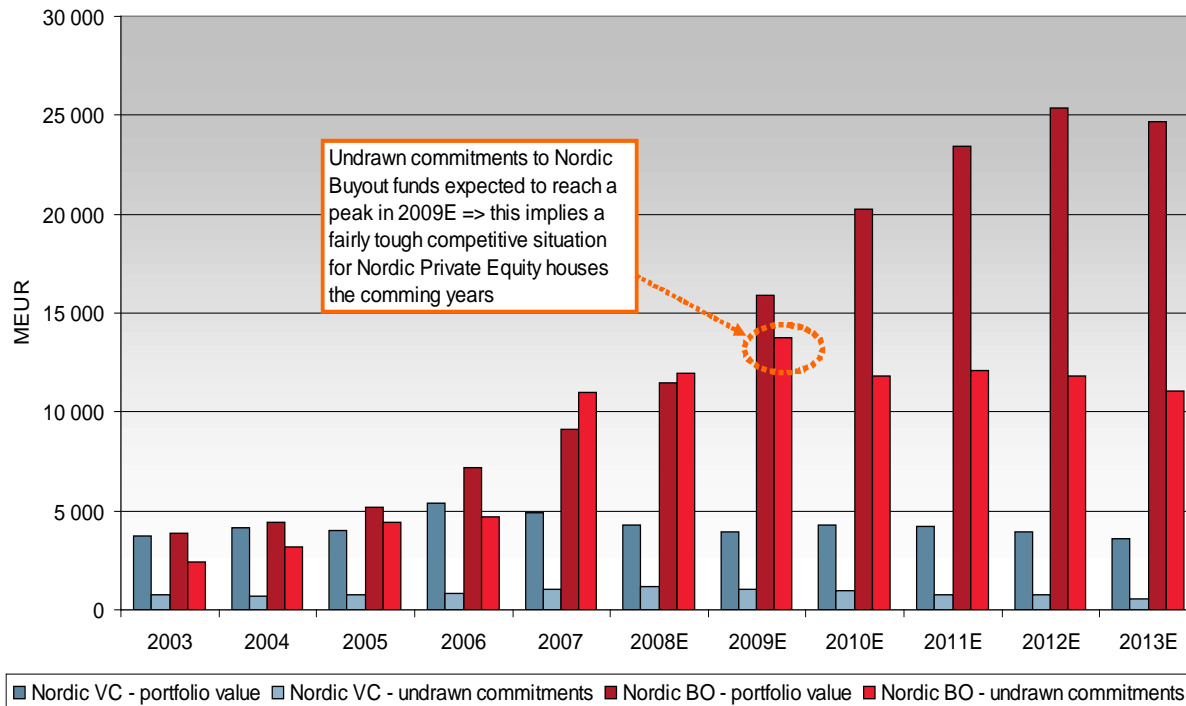
- The chart below shows an apparent dichotomy between historical venture returns and buyout returns in the US, Europe and the Nordic region. Generally US venture has outperformed European venture which again has outperformed Nordic venture. The picture is reverse for buyout, where Nordic funds have outperformed the more mature US market and also the European market (which is dominated by the mature UK market).
- High commercial and technological risk, low quality deal flow and a long exit course are venture characteristics which support the view that high quality venture markets and funds are created through experience.
- If so, we may expect improved returns over time from European venture funds as they mature and incorporate lessons learnt.**
- However, anecdotal evidence also lends support to the view that a handful of top-tier venture funds, typically based in Silicon Valley, account for most of the excess historical returns created by US venture funds. These funds dominate the market and have a brand name which gives them superior access to deal flow and superior negotiating power. In that case the vast majority of US venture funds will have returns in line with European VCs

Pooled IRR for key private equity segments

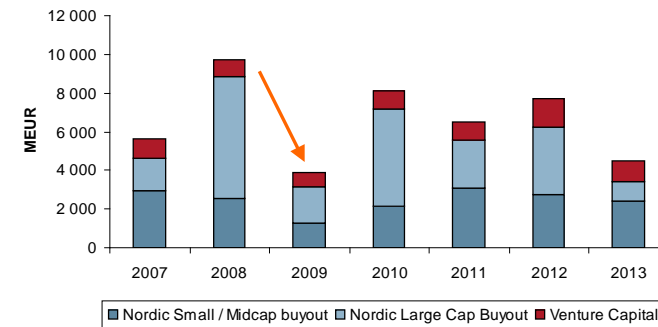


# A recession isn't necessarily bad for the Nordic Private Equity Industry - Poor 2009 fundraising is needed in order to mitigate capital overhang

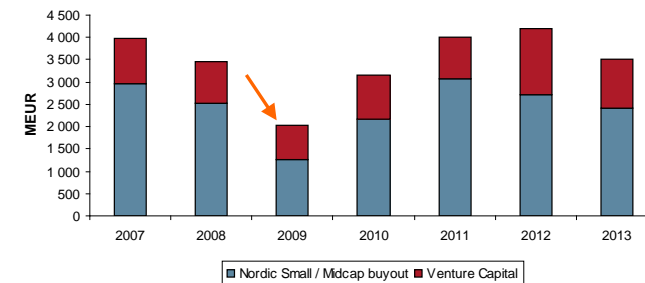
Impact of Nordic fundraising



Nordic fundraising expected by Argentum



Nordic fundraising ex. Large Cap Buyout expected by Argentum

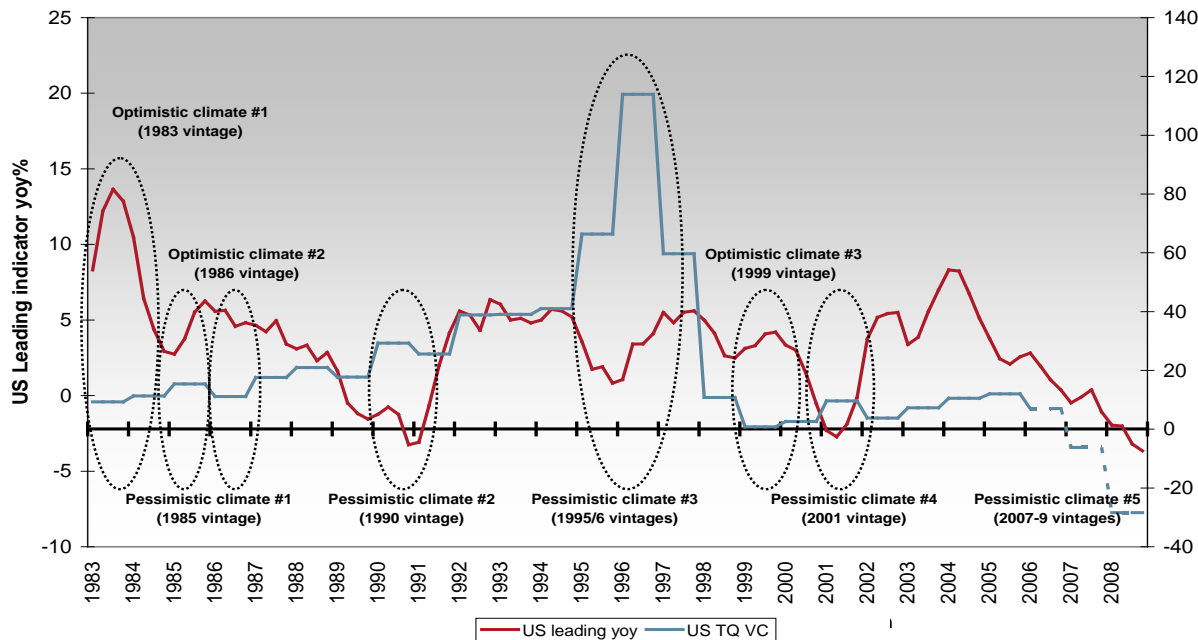


• As mentioned above un-drawn commitments to Nordic Buyout funds (largest and most important Nordic Private Equity segment) is expected to reach a peak in 2009, this implies a tough competitive situation for Nordic Private Equity in the coming years.

• The decrease in fundraising may be even more significant than what has been indicated by Argentum and may mitigate the vast “dry powder” in the coming years.

• **If Nordic Private Equity is going to yield positive cyclical affects from the current recession a poor fundraising environment may be just what the doctor ordered.**

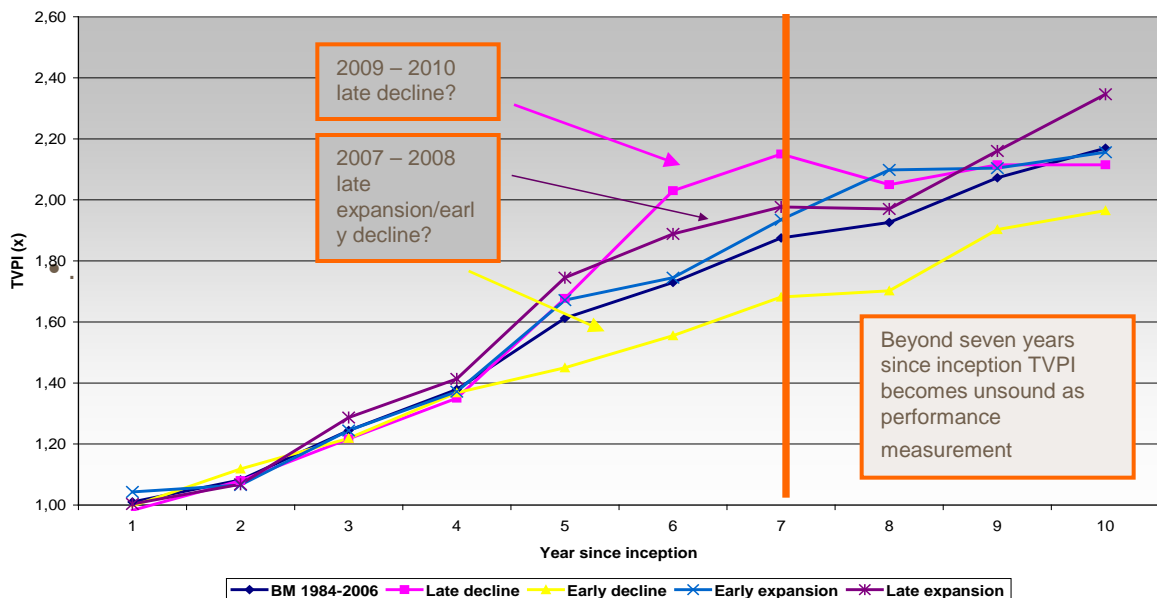
# A recession isn't necessarily bad for the Nordic Private Equity Industry - Funds raised in times of poor economic outlook tend to over perform



- Historical net-IRR data from US venture funds (Thomson) indicate that there is a marked difference in return between “optimistic” and “pessimistic” vintages vs. the average level over the vintages between 1983-2004.

- “Pessimistic” vintages were characterized by a negative development in US leading indicators. Among Median Quartile funds these vintages on average yielded a **median additional return of 3.0% per annum. In the top quartile the additional return was 4.5%.**

- Equivalent negative additional returns for “optimistic” vintages were -6.0% and -14.7%, respectively.



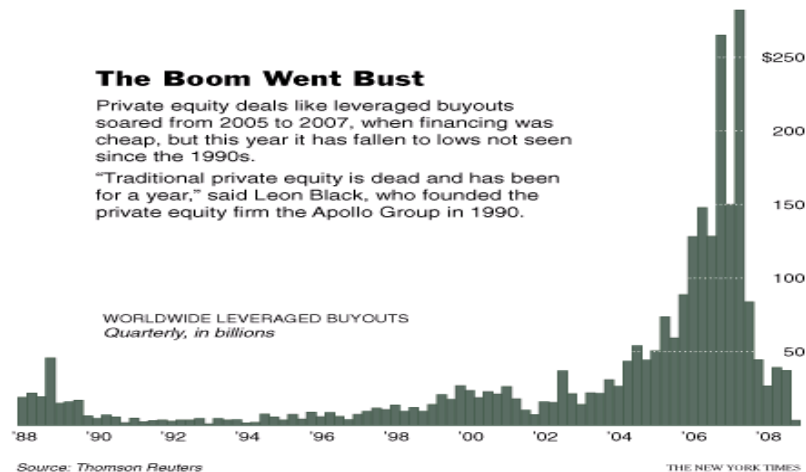
- For buyout funds the cyclical affects become even more apparent. The greatest disparity in performance is seen between funds that are raised during early economic decline and late economic decline (1,7 vs. 2,2 TVPI seven years following launch).

- **If one believes that the global economy is in the later decline stage one may argue that funds established during 2007-2008 will under perform while funds established in 2009-2010 will over perform.**

- Funds that are raised in the late decline stage tend to have shorter holding periods (thus greater IRR's).

## The winners will take it all

- The boom periods in private equity are often driven by technologic change (such as the rise of the Internet) or cheap financing (such as the recent credit bubble).
- Such good times create various new entrants into the market both on the LP and GP side.
- This invariably creates an over-supply of funds doing marginal deals at high acquisition multiples. **Thus the “bust” is inevitable.**
- Many “boom funds” flop, returns drop, new funding dries up and entrepreneurs return to consulting or investment banking. LP’s rein in their private equity programs and there is a flight to quality funds, resulting in the shakeout of the majority of average or below average fund managers.
- As a result top-quartile funds will be able to yield peak returns through bottom picking and little competition within the vintage.



**The shakeout of none alpha creating fund managers may be positive for the Nordic Private Equity industry. The managers that are left are more likely to allocate capital in an efficient manner while creating value through active ownership.**