

NORDIC CAPITAL

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Nordic Capital among world's top 10 private equity firms

On Nov 17 Wall Street Journal, together with Dow Jones and Private Equity News/Financial News, published a list of the world's top 10 private equity firms, where Nordic Capital ranks 2nd place based on performance. The list is based on academic research providing a view of a private equity firm's performance relative to its peers during 1996-2005.

In a joint research project, the academics behind the research have developed a proprietary methodology that makes it possible to comprehensively assess the aggregate performance of all funds managed by a Private Equity Firm.

This ranking answers the question: "Which firm(s) generated the best performance for their investors over the past years?" It draws on performance information from all buyout funds managed by a given PE Firm and aggregates their performance based on a novel and proprietary methodology into one overall performance score.

The analysis was done by Oliver Gottschalg, associate professor of strategy and business policy at HEC School of Management in Paris in association with Private Equity News.

Nordic Capital Funds are very pleased to be represented on this list. For the full article please see the next page.

Robert Andreen, Founding Partner, Nordic Capital comments:

"We are delighted that Nordic Capital's long-term investment approach has proven so fruitful and we're honored to be on this global list of the top 10 private equity companies, showing that Nordic Capital has generated one of the best performances to our investors over the last 15 years. Being represented on this list is a proof that our continuous strategy has worked well over the years, both in good times as well as in bad times."

Finn Johnsson, Chairman of the Boards of AB Volvo, Luvata, KappAhl, Thomas Concrete, City Airlines, EFG and Chamber of Commerce Western Sweden comments:

"Having worked closely with Nordic Capital over a long period of time, first as CEO for Mölnlycke Health Care, and later on as Chairman of the Board for several other of Nordic Capital's portfolio companies, I am convinced that Nordic Capital's long-term strategy and committed approach to ownership, is helping their portfolio companies to develop and create long-term value."

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Nordic Capital private equity funds have invested in large and medium sized companies primarily in the Nordic region since 1989. Through committed ownership and by targeting strategic development and operational improvements, Nordic Capital creates value in its investments. Nordic Capital Fund VII has EUR 4,300 million in committed capital provided by international institutional investors. The fund is investing in companies in northern Europe and in selected investment opportunities internationally. Nordic Capital Fund VII is based in Jersey, Channel Islands and is advised by NC Advisory AB in Sweden, NC Advisory A/S in Denmark, NC Advisory Oy in Finland, NC Advisory AS in Norway, NC Advisory GmbH in Germany and NC Advisory UK LLP in the United Kingdom. www.nordiccapital.com

Investors should shun brand name private equity firms for best returns

James Mawson

If an investor had just \$1 to give to a private equity firm to invest she would probably be better off looking outside many of the industry's brand names, according to the results of a long-running academic study into the industry's performance.

The research of funds raised between 1996 and 2005 has for the first time provided a benchmark of the top buyout firms round the world and, while usually past performance is little to no guide to future investment success, within private equity historically there has been consistent relative outperformance for the best firms versus their peers.

However, only CVC Capital Partners, a UK-based global buyout firm that raised more than \$18bn (£12.1bn) in the decade under analysis, is among the largest alternative asset managers in the 2009 Gottschalg-HEC private equity ranking.

Instead, the top 10 list is made up of often secretive organisations, many of which have never previously been interviewed, buying and selling mid-sized companies across the UK, continental Europe and the US.

The difference in performance between the top 10 and the average was substantial. The analysis by Oliver Gottschalg, associate professor of strategy and business policy at the HEC School of Management in Paris, in association with Private Equity News, a trade paper owned by Dow Jones, found the average annual performance rates of the top 10 were double the weighted average of the \$345bn raised by all 63 firms who met the criteria.

These criteria of a firm needing to have closed at least two funds worth at least \$500m in aggregate in the 1996 to 2005 period and still be around today cut out just less than half of the industry, as judged by total assets raised according to data provider Preqin.

This meant \$1 invested in a top 10 firm would have delivered \$2.25 back to investors compared to \$1.59 for the average firm. Leonard Green, a San Francisco-based buyout firm, however, with its score of 2.89 delivered nearly three times the average to its investors as it was in the top 5% of groups across each of the six performance metrics used in the study.

World's top 10 buyout firms

Rank	Firm	Score
1	Leonard Green & Partners	2.89
2	Nordic Capital	2.12
3	Astorg Partners	2.10
4	Charterhouse Capital Partners	2.07
5	Gilde Buy Out Partners	1.73
6	Linsalata Capital Partners	1.48
7	Berkshire Partners	1.43
8	CVC Capital Partners	1.31
9	AXA Private Equity	0.87
10	Brockway Moran & Partners	0.79

Source: PERACS CN

All the top 10 were in the top 25% for each of the metrics, which covered annual performance rates, cash returned back to investors and total returns once unsold business in a fund's portfolio were added in on an absolute and relative basis.

Oliver Gottschalg, associate professor of strategy and business policy at the HEC School of Management in Paris, who created the methodology to analyse the industry a project sponsored by Robert Ryan from advisory firm Peracs Due Diligence Services, said: "We did not consider the size of fund, ie the absolute amount raised and returned, but the profits made on each dollar invested. This explains why the mega-franchises do not show up as the dollar amounts they have created is impressive but for some it might also be because they could not provide enough data to analyse them sufficiently."

Previous academic research has also indicated it to be hard for firms to maintain performance as their size increases. Josh Lerner and Paul Gompers, two Harvard University professors in their paper 'Money Chasing Deals?: The Impact of Fund Inflows on Private Equity Valuations', revised in January after release in the 1990s, found a doubling of venture capital funds under management led to a 7% to 21% increase in prices paid.

Gottschalg said: "One surprise in the top 10 is the mix of private equity managers: various sizes of funds, from mega to lower mid-cap players, and geographies. We have funds with a regional focus, as well as quasi-global players, and European firms are well represented in the list. This confirms that in private equity it is relatively less important to allocate capital to the right sector, region or size-segment than to pick the right manager."

Although the US is the world's largest private equity market, competition for assets and the relative sophistication of its advisory community means it has been hard to find undervalued companies and sell them for huge profits.

Eric Bacon, a senior managing director at Ohio-based Linsalata Capital Partners, which was sixth in the Gottschalg-HEC list, summed it up: "Equity returns have halved since I joined the industry from more than 50% per year in 1990 to less than 25% now.

"Why is that? Leverage is down so far they should consider taking the leveraged buyout badge away. Equity contributions [from private equity funds as a proportion of the total deal price] have gone from 2% to about 50%. And returns are down because it is a free market and we have 100 times the competitors of 25 years ago. This means successful firms need to be more creative and place more emphasis on value creation than financial engineering."

Gottschalg also warned investors there was no golden recipe to get top performance in a category but instead investors "need the nose to find the truffle in each segment".

Robert Coke, co-team head of absolute returns and buyouts at Wellcome Trust, the world's second-biggest medical endowment with £13bn under management last year, and also chairman of the UK-based Private Equity Investors Association whose members have more than £8bn in the asset class, said: "Assessing past performance is the easy bit of due diligence. Where the skill lies is in trying to assess what you expect the future to look like and who you think will best deal with it."

All the top 10 were contacted, Charterhouse Capital Partners and Brockway Moran & Partners declined to comment on record while Leonard Green declined to return repeated calls and emails.