

KEYNOTE INTERVIEW

Identifying the ideal tech investment



Sub-sector specialisation, a replicable strategy and clear investment criteria focused on high growth, stable B2B end markets with a need for digitalisation form the basis of exceptional tech deals, says Nordic Capital's Fredrik Naslund

Q What are you looking for in a tech investment?

Technology is obviously a very broad and fast-moving sector, which is why we have decided to be highly specialised. We focus on repeat investing across 15 different sub-segments where we feel there is significant secular growth. Nordic Capital is a growth-focused investor and our technology portfolio has grown revenue at 20 percent per annum, organically, on average. That is very important to us.

Next, we look for stable, non-cyclical end markets where there is a clear need in terms of automation and digitalisation. We focus only on

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B2B and not B2C. Then, we turn to the products themselves. We concentrate on payments and software where we look for non-legacy players. So, in short – stable, non-cyclical and fast growing B2B end markets, where there is significant need for automation, targeting non-legacy products in software and payments.

Q Where in particular are you looking when it comes to the payments sector?

If you look at payments, there has historically been a clear divide between offline and online. However, at some stage, the holy grail became a single system that could operate across both. Furthermore, we are clearly seeing a decline in cash transactions. The Nordic region is a leader there, surpassed only, perhaps, by China. The first stage in that evolution was a move from cash to card payments. Yet in the past 10 years, we have seen a shift from card payments to digital payments more generally. This is a strong, non-cyclical trend to invest behind.

On top of that, there is significant product innovation in the online space,

driven by companies such as Trustly, a company Nordic Capital acquired back in 2018.

Modern technology is disrupting the card value chain by facilitating real-time payments between one account and another. Instead of using Visa or Mastercard to guarantee a transaction, for example, this technology can check if money is available in the account, and then make the transfer to the merchant immediately. That is precisely what Trustly does.

Q How did your investment in Trustly come about and what are your plans for the business now?

Nordic Capital previously owned a business called Bambora. Bambora was based on a platform carve-out from one of the large Nordic banks. It was an omnichannel card acquiring company operating in 70 different markets, which managed over €55 billion of transactions a year by the time it was exited in a €1.5 billion sale to Ingenico Group in 2017.

The biggest threat to card schemes, and to companies like Bambora today, is modern technology that can circumvent the card value chain by moving money directly from one account to another. So, the week after the exit of Bambora we contacted the management team and owners of Trustly, who recognised that Nordic Capital is a highly experienced payments investor and that we could help the business become a global leader.

That is how we originated the deal. Since then, we have supported the completion of two add-on acquisitions, one in the US and one in Europe, to ensure that Trustly gained that global leadership position. We have been very proactive based on what we saw as the biggest challenge to Bambora.

Q Another key sector for Nordic Capital has been healthtech. Can you explain why that is an exciting space



Q What are the key trends driving the fintech industry and what do you consider to be some of the most interesting sub-segments?

In many ways the drivers in fintech are similar to the healthtech industry. There are banks and financial institutions with a big overhang of legacy systems. And while there is a marked digitalisation trend taking place, a lot of operations are still manual. The Nordics is a leading market in this regard. The region has a very high degree of online banking and a high degree of automation. This is a theme Nordic Capital is investing behind. Another important trend in this sector is increased regulation.

Itiviti, which provides trading technology and services, is one example of Nordic Capital's investments in the fintech sector. The company was taken private in 2012 and sold this year to Broadridge Financial Solutions for over \$2 billion. During Nordic Capital's ownership period, the company was transformed from a niche point solution using specialist software into a global leader offering a modern cross-asset capital markets platform.

That transformation was achieved through many years of significant technology investments, together with a carefully crafted technology acquisitions strategy and a dedicated focus on setting up research and development capabilities. At the time of exit, it was a global leader in its market and the outcome for Nordic Capital was exceptional.

Another financial services company in Nordic Capital's portfolio is RegTech, which was acquired last year from BearingPoint. RegTech provides software solutions across the regulatory value chain. The focus now is investing in product development, organisational capacity and expansion of the company's international footprint.

right now and where you see pockets of opportunity?

Nordic Capital has a world-class healthcare investment team, which overlaps with our technology business in the area of healthtech. In a similar vein, financial services is another of the firm's focus sectors. This overlaps with technology in the field of fintech. We decided early on that we wanted to be a big player in those segments and that is exactly what we have done.

We use our knowledge of those end markets and our network of advisers, CEOs and founders, to help create our investment playbook. This has led to some spectacular opportunities, for example with ArisGlobal, a Miami-based software-as-a-service provider that is transforming the way that life sciences companies handle drug safety, clinical development, regulatory compliance and medical affairs.

Not only is healthtech an attractive segment for these reasons, but healthcare itself represents a stable and growing underlying end market. On top of that, there is a low degree of automation and digitalisation. There is so much that can be done to improve processes in the healthcare market using technology. This can be done on the provider side, on the payor side, or, in the case of ArisGlobal, on the pharma side.

Nordic Capital also has a portfolio company called Cytel, which is one of the largest providers of statistical software and advanced analytics for clinical trial design and biometrics execution. For example, when the covid-19 vaccines were being developed, statistical modelling was used to speed up those trials and Cytel was instrumental in that, thanks to advanced software. Modern software tools are being used to make the healthcare market more efficient, offering better health economics, but also improving quality.

Inovalon, which Nordic Capital placed a public offer on this summer, is another example of a business focused on delivering cloud-based data-driven

“There is so much that can be done to improve processes in the healthcare market using technology”

healthcare. That company is improving quality of care for patients, while also reducing the cost for the system. Think of it like this: if you were to go to 10 different doctors, it is a big risk that you get different diagnoses. If you go straight to the data and then layer the medical advice on top of that, the quality of the results will inherently be better.

We are right at the beginning of outcome-based data usage in the healthcare sector and Inovalon is a great example of that being put into practice. It is the US market leader for collecting proprietary data and then using that data to improve both patient care and health economics.

Q Nowadays, most private equity firms would describe themselves as sector specialists to some extent. What would you say it really means to be a sector specialist in an area such as technology and why is that important?

Specialisation is critical to us. We monitor and track companies in our

15 market segments in the tech sector. We have built a network of operating chairpersons, typically former CEOs, in those segments. We have built playbooks around how to execute transactions and create value. In addition, we have added what we call ‘blackbelts’ – functional experts that come in and help management teams in specific situations. These people are absolute specialists in their fields.

Finally, as with Broadridge, we have established a dialogue with all the major corporates over many years, so that we understand and have relationships with the potential buyers of all businesses. I believe we have proven to our limited partners that Nordic Capital is one of the leaders in this space, not least because of the share of exits that go to these strategies. In short, sector specialism is critical to us and has helped deliver an exceptional performance.

Q What is your approach to ESG as a firm, and how does this apply to technology investments?

ESG is very important to us as a firm and has been for a very long time. We have a dedicated team at Nordic Capital and ESG forms a part of all our investment screening and due diligence, as well as our asset management and value-creation strategy. We are A+ rated by the United Nations Principles for Responsible Investment and recently launched an ESG-linked credit facility.

Every portfolio company board meeting allocates time to addressing ESG issues ranging from diversity through to carbon footprint and cybersecurity. Finally, we have recently also taken the step of setting concrete targets across our portfolio to help drive improvements and measure the sustainable impact. We are striving to be at the forefront of promoting ESG best practice and will continue to do so. ■

Fredrik Naslund is a partner and head of technology and payments at Nordic Capital