



Old Town,  
Stockholm

## Toward Firmer Ground

A record start to the year may have been followed by a patchy quarter two, but law firms in the Nordic region expect recovery to gain momentum.

By Maria Jackson

**A**t the beginning of the year, it seemed that M&A had returned with a bang to the Nordic markets. Figures compiled for the Zephyr Quarterly M&A Report showed that after two slow years, the value of M&A involving Nordic targets leapt by an eye-watering 57 percent to \$37 billion (€28.5 billion) during the first quarter of 2014, compared to the fourth quarter of 2013. That figure represented an astonishing 92 percent rise in deal value on the value recorded in the first quarter of 2013. Unfortunately, the party was not to last long.

The second quarter saw Nordic M&A deal values shrink by nearly half to \$22 billion (€17 billion), while deal volume slipped by 23 percent quarter-on-quarter to 820, according to Zephyr.

Despite the mixed messages, there is no doubt that the region is on the up. Private equity remains a bright spot and the region's strong technology scene continues to attract venture capital.

"The confidence level is higher than we have seen for many years," says Richard Åkerman, head of the Stockholm office and the private M&A practice at Nordic law firm Hannes Snellman. "We believe this

is the result of a strong stock market, the availability of cheap finance and cash-rich corporate balance sheets. However, the market fundamentals do not give a clear picture.”

It certainly seems true that the headline figures are not fairly representing the region’s current activity levels.

## A SOLID PERFORMANCE

Deal confidence remains high among investors, with the region’s good public finances and robust equity markets among the reasons to be cheerful. During a three month period straddling the end of Q1 and the beginning of Q2, the Nordics housed nearly one-fifth of European IPOs, worth a total of \$3.4 billion, according to figures from Thomson Reuters.

“There are several key factors underpinning investor confidence in the region,” explains Andrew Cotton, corporate and technology specialist at Helsinki-based business law firm Hammarström Puhakka Partners (HPP). “Good targets are the first prerequisite. In addition, prices are perhaps more realistic than in some other regions – there is still some target distress, meaning deals need to be done at realistic prices.”

Cotton also points to the fact that a clutch of recent headline transactions have focused attention on the region, giving other corporates confidence that there are deals to be done. The technology space has been a particularly lucrative area for high-profile M&A in Finland. Most notably, Facebook has been on an acquisitional trail in the country: in June it bought Finnish start-up Pryte, just two months after acquiring Finland-based mobile app maker ProtoGeo in April.

Although the technology scene remains vibrant throughout the Nordic region, it is by no means the only area where firms are reporting deal activity. It seems investor appetite is growing across the piece.

“The overall activity in Finland is evenly dispersed over all of the relevant business sectors, however, the healthcare, infrastructure and software game business sectors have attracted especially high deal flows,” says Jouni Salmi, head of the Finnish M&A practice at premier Nordic law firm, Roschier. “In Sweden the media and infrastructure sectors have been particularly active. Deal flow is inter alia created by the fact that large private equity investments are becoming ripe for sale. Many private equity funds are, however planning to exit portfolio investments through IPOs at this time (so the stock market is likely to get new entrants in a number of business sectors).”

Nevertheless, it is the technology industry that has really captured global investors’ attention and governments in the region are working hard to promote and incubate the sector.

## STARTING UP

In October 2013, it was announced that Japan-based companies SoftBank and GungHo Online Entertainment

were investing \$1.53 billion into acquiring a 51 percent interest in Finnish mobile-game developer, Supercell – GungHo later sold its stake to SoftBank, which is its parent company, for \$38 million more than it paid. The deal illustrates the opportunities available in the region’s fertile start-up market, a sector that Finland has made a concerted effort to support.

Since 2008, the Finnish Funding Agency for Innovation, or Tekes, has been on hand to help finance start-ups. The government agency, which takes no equity share for its investment, awarded \$748 million (€577 million) in funds to companies and research organizations last year, with \$172 million (€133 million) channelling straight to start-ups.

“There is good access to research and development capital from Tekes and some products to encourage international expansion available from Finnvera, which has created a healthy start-up scene – both are government backed institutions,” says Cotton. “Some of those start-ups have either successfully exited (Pryte and Proto Geo Oy to Facebook for example) or attracted significant investment (Supercell).”

**“The overall activity in Finland is evenly dispersed over all business sectors, however the healthcare, infrastructure and software game sectors have attracted especially high deal flows.”**

—JOUNI SALMI, HEAD OF FINNISH M&A PRACTICE AT ROSCHIER

In fact, according to figures from the Finnish Venture Capital Association (FVCA), investment into Finnish venture stage companies when measured as a percentage of GDP was the highest into Europe during 2013: investments reached 0.067 percent of GDP, with \$174 million (€135 million) invested by venture capital funds in 176 Finnish companies.

“The flurry of recent high-profile deals have made investors look at Finnish start-ups, potentially removing some of the previous reticence to invest in a Finnish company,” adds Cotton. “It is less of a barrier to direct investment into a Finnish limited liability company by U.S. and Asian investors if companies like Facebook and Google have already done so.”

The facts speak for themselves: government support is combining with good products to lure investors into the market and that success is self-propagating.

“There is a critical mass of start-up companies developing gaming platforms and mobile applications,” says Mikko Heinonen, managing partner of Hannes Snellman’s Helsinki office. “Compared to earlier

## NORDICS

stages of the IT era, companies are now able to commercialize the innovations and platforms at an earlier stage. This contributes to the activity of the scene in general.”

Hannes Snellman has had a prominent role in many of the headline technology mandates that have recently hit the regional market. A team led by Tuire Kuronen advised SoftBank and GungHo Online Entertainment in the Supercell deal and the firm also advised Microsoft on the Finnish aspects of its \$7.2 billion acquisition of Nokia’s devices & services business - Klaus Ilmonen and Kaisa Fahllund led that transaction for Hannes Snellman, while a team from Roschier was on the other side of the deal.

Away from the technology space, the resurgence of private equity deals is also hitting the headlines.

### FUNDING DEALS

According to the Argentum Nordic Market Report Q1 2014, private equity funds invested \$3.9 billion (€2.96 billion) in the first quarter of this year, which marked the second-highest first quarter by value for the region on record – driven by a booming buyout market. U.S.-based private equity firms have been widely reported as returning to European markets and according to The European Private Equity and Venture Capital

**“The flurry of recent high-profile deals have made investors look at Finnish start-ups, potentially removing some of the previous reticence to invest in a Finnish company.”**

—ANDREW COTTON, CORPORATE AND TECHNOLOGY PARTNER, HAMMARSTRÖM PUHAKKA PARTNERS

Association, North American investors’ contribution to private equity (PE) investment into Europe rose from a 24 percent share of fund values in 2012 to 36 percent in 2013.

“During the long financial storm following 2008, the U.S.-based PE houses were not as active as they were before the crisis,” says Åkerman. “The local but very strong Nordic PE industry has been able to keep the market for itself, which it has done to good effect, but the U.S. PE houses must think that the Nordic market is too attractive to be left for the locals; we see them returning to all segments of the market.”

Åkerman points to the \$3.1 billion acquisition of Nordic card-payment company Nets by Advent International, ATP and Bain Capital in March as a key bellwether for the market. Significantly, Bain Capital



**ANDREW COTTON**  
HAMMARSTRÖM PUHAKKA  
PARTNERS



**JOUNI SALMI**  
ROSCHIER

has also been reported as seeking to raise about \$4.1 billion to continue to invest in Europe.

“There has definitely been more interest in the Nordic region from PE funds generally. In the renewable energy and infrastructure sector for example, the main interest has been from private equity and pension funds and foreign banks,” says Cotton. “For example, I represent Element Power, the wind farm investor and developer backed by a U.S. pension fund, on most of its deals in Finland, but I would not personally say that the U.S. is the only country where the private equity and pension funds have started to take more of an interest in Finland.”

Cotton is currently representing funds from Switzerland, the U.K. and Germany on Finnish deals, which demonstrates that interest levels are increasing across Europe. In addition, he adds that Asian investors, particularly companies in Hong Kong, China and Japan, are becoming increasingly active in acquiring energy and infrastructure assets.

In view of recent research from placement agent Berchwood Partners, it is no surprise that foreign PE firms are flocking to Nordic countries to invest their funds: its figures show that pooled returns in the Nordics over a 15-year period made an internal rate of return of more than 14 percent, compared to under 12 percent for the rest of Europe. It is an impressive record and a significant differentiator.

“Where the asset is a regulated infrastructure asset, whilst Finland might not offer stellar returns, the Asian investor market values the stability of the Government and the economy,” says Cotton. “It means that it is a very safe investment bet with relatively easy calculations on the rates of return, particularly given that the tariffs and fees they can receive or charge around energy infrastructure are often subject to price regulation by a regulatory authority. These factors combine to make Finnish energy and infrastructure assets very attractive to the Asian market.”

The increasing PE presence in the Nordic region is also helping to bolster the region’s IPO performance.



## HAMMARSTRÖM PUHAKKA PARTNERS



Banking and finance



Corporate



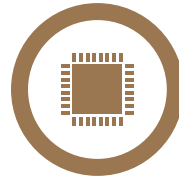
Dispute resolution



Energy



Infrastructure  
projects



IP and technology



Real estate and  
construction



Transactions



Transport and logistics

HPP acts for major North American clients across a range of sectors including banking, energy and infrastructure, insurance, technology, leisure and travel and logistics on their legal issues in Finland. To find out more visit [www.hpplaw.com](http://www.hpplaw.com)

### Specialized in the Essential

HAMMARSTRÖM PUHAKKA PARTNERS  
Bulevardi 1A, Helsinki, Finland

[www.hpplaw.com](http://www.hpplaw.com)

## NORDICS

**OFFERING RETURNS**

Figures from the EY Global IPO Trends report show that Europe, the Middle East, India & Africa was the leading IPO region worldwide by value in the first half of 2014, with proceeds reaching over \$46.5 billion, and

**“The U.S. private equity houses must think the Nordic market is too attractive to be left for the locals; we see them returning to all segments of the market.”**

—RICHARD ÅKERMAN, HEAD OF THE STOCKHOLM OFFICE AND THE PRIVATE M&A PRACTICE AT NORDIC LAW FIRM HANNES SNELLMAN

that PE and venture capital funds accounted for 25 percent of European IPO volume during that quarter. It also found that the Nordics have joined the U.K. and France as European IPO hotspots.

“In Sweden, many of the completed and contemplated IPOs are private equity-backed, for which a contributing factor is the various challenges in the trade sale arena, although there are signs that private sales are becoming

competitive and may increase,” says Jens Bengtsson head of Roschier’s Stockholm office. “Finally, as interest rates are generally very low, institutional investors are seeking investments in alternative asset classes which have driven high valuation levels in stock exchanges.”

In Finland, the picture is largely the same. It is also important to note that other Nordic countries are also seeing increased interest in IPOs. In March, ISS raised \$1.5 billion in its IPO; the Denmark-headquartered cleaning giant, whose owners include Sachs Capital Partners and EQT Partners, managed to pull off Denmark’s largest IPO since 1994. In Norway, rumors are rife that the country’s second-largest cable operator, Get, is currently engaged in a dual-track process: a mixture of private equity firms and corporates are lining up to bid for the company, which could result in an IPO by its private-equity owners if the \$1.84 billion price tag is not met. Either way, the proposals demonstrate the optimistic mood that is permeating the region, investors are confident that now is the time to make value on their assets.

So while a strong start to the year may have turned into a slightly bumpier road for the Nordic region, the sense across the market is that the second half of 2014 should smooth out nicely. ■

## CO-LOCATED EVENTS

THE  
SINGAPORE  
LEGAL SUMMIT

2<sup>ND</sup> ANNUAL

LEGALTECH<sup>®</sup>  
S I N G A P O R E

NOVEMBER 20, 2014 | MARINA BAY SANDS SINGAPORE

The 2nd Annual American Lawyer’s Singapore Legal Summit is a one-day event designed for in-house counsel, and corporate executives navigating today’s complex global business environment.

This is the one place where legal industry professionals in Asia will have access to one full day of unparalleled educational content and will gain an in-depth look at the newest technologies and services driving the legal industry.

<http://at.law.com/singaporelegalsummit14>

<http://at.law.com/legaltechsingapore>

**REGISTER TODAY!**

For sponsorship opportunities, please contact:

**U.S.:** Al Liberty (212) 457-9486 or email [aliberty@alm.com](mailto:aliberty@alm.com)

**International:** Danny Collins at +44 0 207 766 5241 or email [dcollins@alm.com](mailto:dcollins@alm.com)

Jeremy Stephenson at +44 (0) 20 7766 5242 or email [jstephenson@alm.com](mailto:jstephenson@alm.com)

