

The placement agent expects Nordic GPs to be back in force

Mounir Guen, founder and CEO, MVision

For many years, Nordic general partners and their portfolios – particularly in buyouts – outperformed their peers in private equity, generating some of the best realised returns in the asset class, accompanied by few losses.

Their popularity grew with investors globally, resulting in a large number of oversubscribed funds. Many investors have three, four or more GP relationships in the region.

When investors were asked why this was the case, they would point to excellent performance, very hands-on control-oriented ownership, strong governance, lower debt exposures, excellent and thoughtful management, and very high calibre global portfolio companies.

The series of events that unfolded from

September 2008 led to the now familiar economic and market turmoil. Coupled with new valuation policies that closely correlated the unrealised portfolio to public markets, this began a chain reaction that created duress in the portfolio of these out-performers. They experienced – many for the first time – losses, write-offs and instability. Portfolio companies would go critical overnight.

At first they were reactive – putting out fires – but true to their tradition of control and thoughtful hard work, they soon consolidated their resources, rolled up their sleeves, said good-bye to their families and began fixing things and sorting out problems one at a time.

Like all GPs, they had to be cautious and they made few investments in 2009. They did, however, all focus on stabilising



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their portfolios. New business plans were developed and executed, loans were restructured, processes and evaluations were strengthened, and management and boards were fine-tuned to fit current plans.

So for 2010, expect them to be back in force. They will have emerged both wiser and fitter. Get ready for the return of that high-performance and for the best GPs to find their groove again.

A lender's perspective – why mid-cap may prove toughest

Simon Wakefield, global head of acquisition finance, SEB

Given the government-initiated cheap credit environment, we have seen rapid and dramatic changes in the investment grade market, and it is possible that confidence may return surprisingly quickly to the LBO debt investors. The outlook for senior debt seems good, with leverage levels halved (say 3-3.5x for senior and 4-4.5x for total debt) and yields doubled (say 4-5% for tranche-A senior debt and front-end fees at the same level). The main issue to watch will be how quickly these leverage levels rise and yields fall.

Many expected the large-cap market (<€500m) to be closed for a long time, but a healthy high-yield bond market has resulted in the unusual circumstance that large-cap debt might be easier to arrange than mid-cap. This has also meant that the concerns over the role of the large-

cap equity houses and bulge bracket banks have been reduced.

In the mid-cap segment, the role of the lending banks will be watched closely. Will regional banks regain their role as core providers of debt for mid-cap? Or will bulge bracket banks succeed in creating enough institutional supply to capture the market? For small-cap, (less than €100m of debt) the situation seems more predictable, with local banks being open to existing borrowers.

Finally, banks are recovering their strength. Capital has been replenished with rights issues, the inter-bank funding market has eased, and longer funding maturities are available. Importantly, profitability has shot up to help banks earn their way out of credit problems.



Simon Wakefield

The existing LBO loan portfolio will continue to need plenty of attention, with further restructurings and provisions likely to keep everyone busy over the next two or three years. Nonetheless, concerns about future revenue growth will drive lending activity, and as confidence is returning to the market space, we expect new business to be the centre of attention.