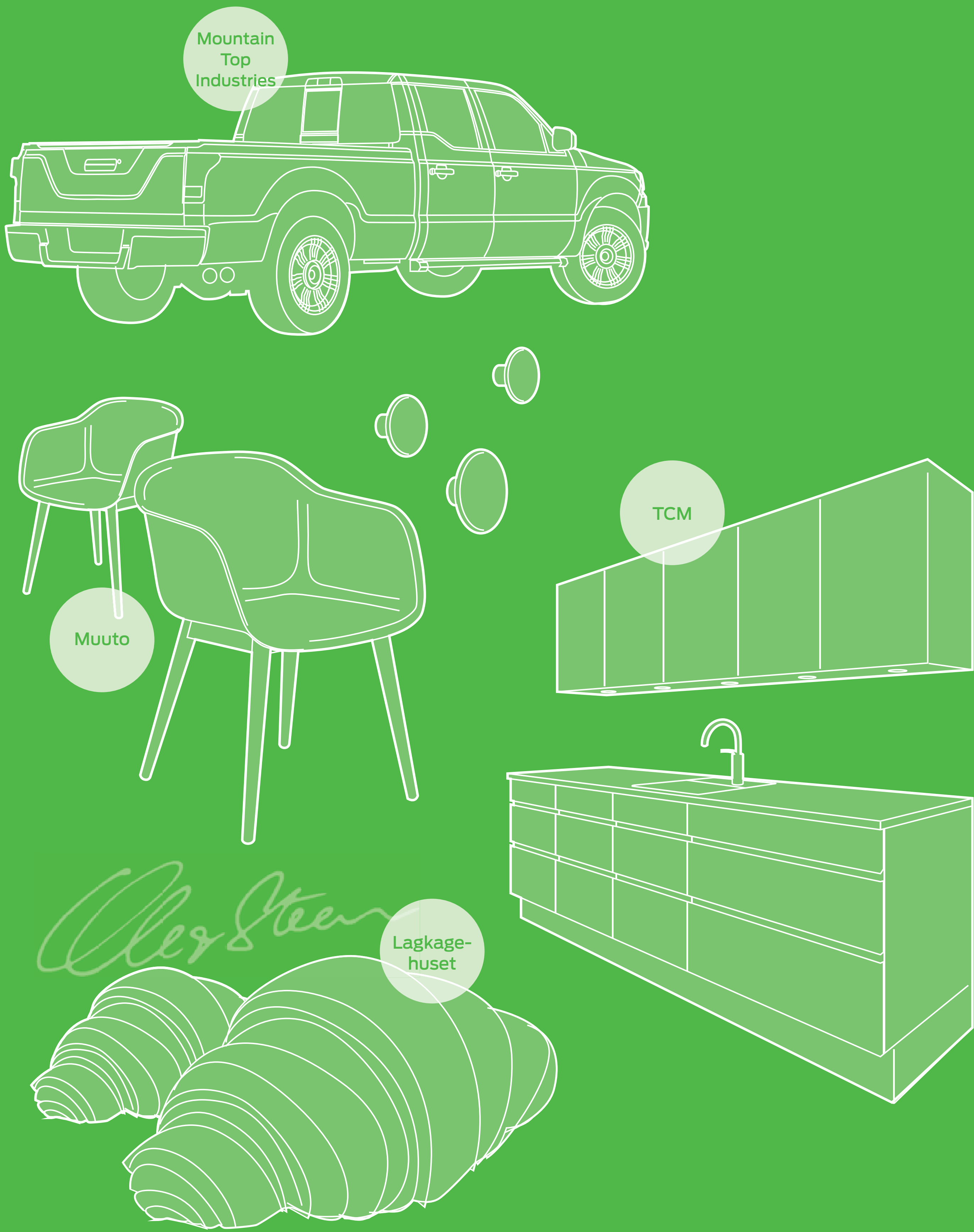
# Private equity funds in 2017/18

dvca

Danish Venture Capital and Private Equity Association

## Extract from Annual Review of good corporate governance in private equity firms



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# Events in 2017

MARCH

## Nordic Fundraising Summit

DVCA holds its ninth Nordic Fundraising Summit. Over two days, a long series of meetings takes place between funds and investors able to pave the way for new investments in Danish businesses. The summit is attended by investors with a total of DKK 1,250bn available to invest.

APRIL

## Entrepreneur panel

The Danish government appoints an Entrepreneur Panel to examine the challenges and barriers faced by entrepreneurs, and propose concrete measures to improve framework conditions. The aim is for Denmark to be among the best countries in Europe for entrepreneurs.

JUNE

## Nordic Private Equity Summit

DVCA welcomes more than 300 participants to its third Nordic Private Equity Summit in Copenhagen. Keynote speakers include Anders Fogh Rasmussen, former Danish Prime Minister and NATO Secretary General.

## Annual Review

DVCA's Annual Review shows that PE-owned companies achieved organic growth of 7.9% in 2016, compared with just 4.0% in the private sector as a whole. Taking into account everything from earnings to employee satisfaction, PE firms generally outperform the private sector.

SEPTEMBER

## Jannick Nytoft changes job

After nine years as CEO of DVCA, Jannick Nytoft announces that he will be moving to take up the position of CEO at the Danish Property Federation from 1 December.

NOVEMBER

## Summit

DVCA holds its annual summit meeting at Hotel Hesselet in Nyborg. EQT is named "PE Fund of the Year", based on its sale of Færch Plast, and Jannick Nytoft receives the special DVCA Prize for his many years of service to the industry.

## Business and entrepreneurship initiatives

The government, the Danish People's Party and the Danish Social Liberal Party reach agreement on a new package of business and entrepreneurship initiatives. The agreement bears the hallmarks of DVCA, for example an investor deduction for entrepreneurs, better terms for share-based remuneration and a share-savings account. These proposals originate from DVCA, but there is scope for improvements in the years ahead.

DECEMBER

## Henriette Kinnunen appointed new CEO

Henriette Kinnunen takes up her position as the new CEO of DVCA. She has a background in both the legal industry and the public sector. She has also been chief legal adviser to the Danish think tank CEPOS (Centre for Political Studies) and leader writer on the Danish business newspaper Børsen, and run her own company.

# Private equity market in high spirits 10 years on from DVCA's guidelines

Ten years have passed since DVCA first issued its guidelines for good corporate governance in private equity firms. This was the first step in an ambitious transparency process, which continues undaunted. Private equity firms are playing an ever-greater role in trade and industry, developing the productive businesses that will sustain Denmark in the future.

**Full steam ahead for sales and acquisitions**
Danish companies are drawing in investments from Danish and international PE firms. The combination of economic growth and historically low interest rates has whetted the appetite for sales and acquisitions generally, enabling PE firms to sustain in 2017 the high level of activity seen the previous year.

These firms are playing an increasingly decisive role in Danish trade and industry, not least on the stock market, where in the past year major international PE firms have delisted TDC and Nets. At the same time, Nordic PE firms have listed kitchen manufacturer TCM Group and, recently, IT firm Netcompany, which last year celebrated reaching 1000 employees. It is the first time in 20 years that a new business in Denmark has achieved this milestone.

The favourable market for PE transactions will probably continue into the coming year, when underlying growth in the economy looks set to be maintained. Once again this year, this means the PE firms will focus on making sure that the companies are not overpriced.

**Outlook for continued growth – but in troubled waters**
Denmark's GDP grew by 2.1% in 2017. This is solid growth but no more than that, given that growth is riding on the back of a massive pick-up in the workforce, which will require political action in the form of labour market reforms to continue. There does not appear to be any appetite for this among the political parties, which seem instead to have set their sights firmly on the coming parliamentary elections.

Whatever the make-up of the next government, securing the Danish business community access to both venture capital and qualified labour should be a given. The Danish economy is suffering from the same syndrome as many other western countries, namely that productivity growth is at historically low levels and lower than in the countries against which we normally benchmark ourselves. This is a problem that demands political action.

GDP growth in EU-28 in 2017 was 2.5%, and the outlook for 2018 is similar, albeit with several risk factors coming into play. Political developments and the high level of borrowing in Italy, Europe's fourth-largest economy, are a concern. Moreover, the potential trade war between the US and China, and perhaps Europe too, risks putting a damper on global growth, which is otherwise expected to be slightly under 4% in 2018, roughly the same as last year.

**Legal certainty for investors crucial**
One of the challenges we are confronting is that foreign investors are bypassing Denmark, meaning that Danish companies lose out on the capital so crucial for their growth. The alpha and omega in this respect is a stable and predictable tax regime, and foreign investors daring to invest in Denmark without fear of retroactive legislation. Greater legal certainty could translate directly into more investments, more growth companies, more jobs and higher productivity in the Danish economy.

DVCA is an association that embraces the entire ecosystem of active investors: from business angels to venture funds and PE funds.

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Christian Frigast, Henriette Kinnunen and Ole Steen Andersen

Another barrier is that Denmark's framework conditions lag a long way behind those of our Nordic neighbours, for example, who thus have a much easier time attracting foreign capital. This is a shame, since removing the last remnants of the entrepreneur tax on dividends and reducing capital taxation in line with the other Nordic countries could make Denmark a competitive country in which to invest.

**PE firms' transparency process continues**
When DVCA issued its first annual review and ethical guidelines for the industry 10 years ago, it was the first step in an ambitious transparency process that is never-ending. And that's a good thing! Over the past 10 years, DVCA has been able to document that PE firms succeed in generating positive developments in revenue, earnings, employment, organic growth, etc. compared with the private sector as a whole.

At the same time, compliance with the industry's ethical guidelines has been maintained at a high level. But we're not stopping there. As Lizette Risgaard, President of the Danish Federation of Trade Unions (LO), states in the Danish version of the report: "DVCA's guidelines and annual reviews have definitely helped to create greater transparency. That's good. But there's still room for improvement." We hear this, and this is why we continue our positive dialogue with the world around us so that in the future, too, we can be on top of the demands made of active owners internationally and in Denmark, as transparency is a key issue for DVCA.

DVCA is an association that embraces the entire ecosystem of active investors: from business angels to venture funds and PE funds. We believe we have to reflect all of this in our annual review, which from next year will address the complete palette of active investors that – with venture capital and "money on the line" – help to create the strong, innovative and productive companies that Denmark needs in a globalised world.

We hope that you will enjoy our 2017 Annual Review, which highlights the most important key figures and developments for the industry. The Danish version of this 10-year anniversary edition also looks in depth at responsible investments, PE firms' recipes for value creation, the trend for more family offices and much, much more.

**Happy reading!**

Ole Steen Andersen, chairman, DVCA
Christian Frigast, vice chairman, DVCA
Henriette Kinnunen, CEO, DVCA

# A good year with a feast of transactions

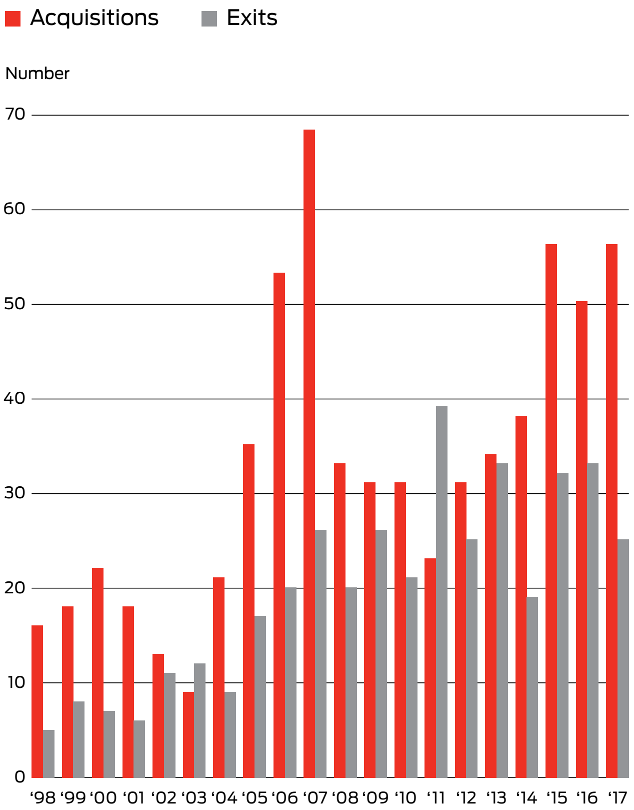
2017 was another year with a large number of transactions that were good news for both buyers and sellers. Sellers have really come out into the open, and virtually all PE firms have seen a high level of activity.

Over the past year, the combination of low interest rates, rising share prices, and strong relative and absolute returns has also brought significant capital inflows for alternative investments, including PE firms. These firms raised DKK 8.5bn in 2017, a historically high level that emphasises how PE firms are playing a crucial role in procuring equity in Denmark.

Globally, the industry has benefited from strong tailwinds, which is reflected in investors' increased allocations to PE firms. According to Bain & Company, the leading consulting partner to the PE industry, an average of around DKK 4,000bn per year has been raised globally over the last five years. The background to this is that PE firms systematically generate attractive, risk-adjusted returns across the economic cycle. But the contribution is a very large one, which may in itself push up prices for companies as a result of increased competition among the PE firms. Other factors contributing to higher prices are that companies remain very active on the M&A market and are largely able to self-finance transactions via cash flow.

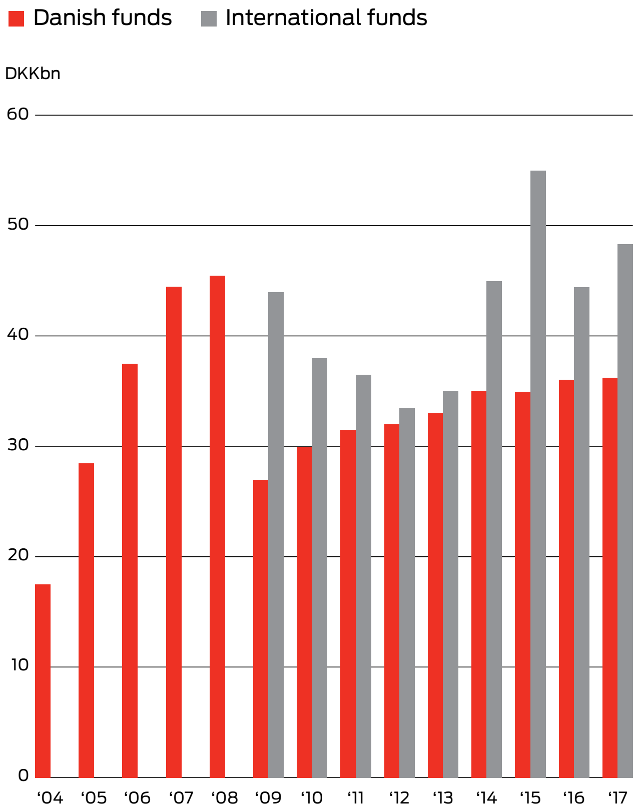
Despite a favourable fundraising market, ever more resources are being spent on due diligence from the investors' side when it comes to selecting in which funds to invest. This is partly due to increased regulation of institutional investors and partly because investors increasingly want to identify what marks out good and less good PE firms. It is not just previous returns at fund level that are important here but also documentation of how operation-

FIGURE 1. NUMBER OF ACQUISITIONS AND EXITS CARRIED OUT BY PRIVATE EQUITY FUNDS IN DENMARK 1998-2017




Note: Based on figures from DVCA. The calculation includes all acquisitions and exits carried out by PE funds in the Danish market, i.e. including PE funds that are not covered by the guidelines. A list of acquisitions and exits involving DVCA members will be found on page 11.

FIGURE 2. COMMITTED CAPITAL IN PRIVATE EQUITY FUNDS IN DENMARK 2004-2017




Note: In 2009, DVCA changed its method of calculating foreign committed capital. Instead of estimating how much foreign funds are likely to invest in Denmark, we have measured the capital invested based on information the funds have provided to Deloitte.

al improvements are implemented at company level. It is also crucial that the PE firms can demonstrate a portfolio strategy capable of counteracting big fluctuations across economic cycles and that they maintain a consistent position in their investments in terms of size, geography and sector focus.

However, there is also a tendency for institutional investors to trim their portfolios, resulting in the capital being concentrated in fewer funds, which then grow in size. This is happening in the Nordic region too, where PE firms such as EQT and Nordic Capital have been able to raise exceptionally large funds of EUR 10.3bn and EUR 4.3bn respectively.

The trend for a greater number of bigger funds may perhaps lead to a slightly larger PE market, but the funds must still take a disciplined approach to identifying the right investments. The market is in fact characterised by high multiples, tough competition and uncertain macroeconomic forecasts due to unstable economies in Southern Europe, trends towards increased protectionism and a monetary policy reflecting unclear signals, which makes it difficult to predict interest-rate developments in the medium term. To some extent, this complicates the process of valuing companies and forces the PE firms to be extremely selective. We are therefore seeing a tendency for processes to be halted in the final stages but, conversely, this also shows that the PE firms are well aware that everything has its limits.

Successful PE firms go to great lengths to attract and retain the best talent by offering interesting and challenging career development. Another tendency is for these PE firms to specialise in new technology platforms and attract particular competences able to identify and develop new investment opportunities within areas that require specialist insight. Evidence of this is seen, for example, in the fact that the world's most valuable companies are platform companies such as Amazon and Google, which make a big mark on development within different product categories and across geographies. There is an acknowledgement here that the significance of new technology platforms will be the dominant theme in many acquisitions, and here the biggest PE firms have developed their organisations to be able to handle these considerations themselves, while smaller PE firms are increasingly using consultants.

That there are now more opportunities to invest in companies leading the way in technology is positive, but can at the same time be a challenge, as the competition from the big tech giants can be a hard nut to crack for many companies – almost irrespective of their technology platform.

**Acquisitions and exits in 2017**
2017 again saw a historically high level of activity in the PE industry with 56 acquisitions and 25 exits involving PE funds, but many of these transactions are not included in the report – in most cases because they involved minor transactions.

As such, the report covers 16 companies that were bought and 11 companies that were exited. Looking at the 16 acquisitions in more detail, the standouts are Advent's acquisition of Færch Plast, EQT's acquisitions of Global Connect and Fertin Pharma, CataCap's acquisition of LanguageWire, and Axcel's acquisitions of Nissens and Mountain Top Industries. The total purchase consideration for these 16 companies was around DKK 17bn. Six further acquisitions have been made in 2018, namely Budweg Caliper, Continia, GUBI, Menu, REKOM and Søgemedier – evidence of a continuing high level of activity.

Standouts among the exits conducted in 2017 are Polaris' divestment of Avanti to Alimak Group, Maj Invest Equity's divestment of Muuto to Knoll and FSN's divestment of Lagkagehuset to Nordic Capital. IK Investment Partners' IPO of kitchen manufacturer TCM and FSN's recent IPO of Netcompany are other highlights.

If we compare the Danish and Swedish markets, a total of 33 transactions with an equity value of just under DKK 13bn were carried out in Sweden in 2017, according to figures from our Swedish counterpart, SVCA. Although the Swedish economy is bigger than ours and there are more PE firms operating in Sweden than here, a substantially higher amount of equity was contributed in Denmark – DKK 16.6bn – which means that the Danish market was significantly larger than the Swedish in volume terms in 2017.

**Big interest in PE firms among investors**
As mentioned, the favourable transaction environment has made it possible to raise exceptionally large funds, showing that the appetite for private equity as an asset class remains strong. On a global scale, Preqin's annual Investor Outlook for 2018 shows that more than half of investors want to increase their allocation to private equity and that satisfaction with how the investments evolve is generally very high. However, investors are increasingly uncertain of the values put on companies, which is of course because there has generally been a significant increase in asset prices, partly as a result of continued expansive monetary policy. Investors are receiving very high returns, and much of this is being fed back to the PE funds in the form of new committed capital. This means that, globally, there is now around USD 1,000bn in "dry powder", the vast majority of which is in PE funds raised since 2015.

In Denmark, 2017 was a good year in terms of fundraising, with around DKK 7bn added to Danish funds. Axcel raised its fifth fund, reaching DKK 4.6bn*. Maj Invest Equity raised a fund of DKK 2.1bn. CataCap raised a fund of DKK 1.2bn and Capidea a fund of DKK 750m. If we include Erhvervsinvest, which is not a member of DVCA, a total of DKK 8.5bn was raised, which is the highest amount ever raised by Danish PE firms in a single year. The funds vary significantly in size, with Danish funds ranging from around DKK 750m to DKK 4.6bn.

However, it is important to be aware that the fundraising level varies significantly from year to year, as the PE firms vary in size and normally only raise a new fund every five years. Seen over a longer period, average fundraising among Danish PE firms is DKK 2.5-3bn a year.

**Performance of PE-owned companies**
Revenue in the PE-owned companies in 2017 was DKK 74bn, on par with the previous year. A few companies, for example within the retail sector, saw revenue fall over the year, while others experienced a reasonable increase. Organic growth – in other words, growth in revenue adjusted for acquisitions and exits – in the PE-owned companies was 6% in 2017, which, unusually, was slightly below

* Axcel raised the fund in 2017 and the formal final closing was in spring 2018.

TABLE 1. NET REVENUE IN PRIVATE EQUITY-OWNED COMPANIES

| DKKbn | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Net revenue | 74 | 74 | 70 | 63 | 60 |
| Of which in DK | 29 | 26 | 32 | 30 | 27 |
| Organic growth | 4 | 5.5 | 6.0 | 8.2 | 7.7 |
| Organic growth in % | 6.0% | 7.9% | 9.6% | 13.7% | 3.1% |
| Revenue growth in mid-cap companies | 7.4% | 0% | 4.9% | 3.2% | -1.3% |
| Revenue growth in the private sector | 5.5% | 4% | 2.2% | 1.2% | 0.3% |

Note: The survey included a total of 50 companies.

Revenue figures can only be compared one year back, as companies are being acquired and sold on an ongoing basis. In order to calculate growth, the revenue figures have been calculated based on the same companies, thus excluding newly acquired and divested companies.

TABLE 2. EARNINGS IN PRIVATE EQUITY-OWNED COMPANIES

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| EBIT (DKKbn) | 5.5 | 7.5 | 7.8 | 4.4 | 5.9 |
| Increase in EBIT margin | 7.3% | 10.2% | 11.1% | 7% | 10% |
| Increase in EBIT margin in mid-cap companies | 8.9% | 8.7% | 8.4% | 7.3% | 6.8% |

Note: The EBIT margin has been calculated based on the development in the companies that have reported financial information for both the current and previous financial years.

TABLE 3. TOTAL PURCHASE CONSIDERATION FOR PRIVATE EQUITY-OWNED COMPANIES

| DKKbn | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchase consideration | 16.6 | 20.2 | 36.5 | 32.0 | 8.7 | 10.9 | 2.0 | 2.5 | 4.1 | 5.2 | 15.0 |

growth in listed mid-cap companies, but well above growth in the private sector as a whole.

While total employment in PE-owned companies is 43,000, the figure within Denmark is over 22,000, equivalent to just under 1.6% of private-sector employment. Employment has levelled off in the companies overall.

There was a 7.3% year-on-year increase in average EBIT margin, putting PE-owned companies almost on a par with listed mid-cap companies, which saw a slightly higher increase of 8.9% in earnings in 2017. However, the PE-owned companies performed best over a five-year period, with an average increase of 9.1% in the EBIT margin compared with 8.0% in the mid-cap companies.

**Tax payments in PE-owned companies**
In 2017, PE-owned companies paid around DKK 500m in tax, equivalent to a tax rate of 16%. However, PE-owned companies' tax payments are variable, such that the tax rate some years is markedly above the general rate of 22%, while it can also be lower, as was the case in 2017.

**Falling equity interest**
When a PE fund invests in a company, it is normal for part of the purchase price to be debt-financed. In 2017, an average of 40% of the total purchase consideration in PE transactions was settled in equity, which is slightly lower than in 2016.

**Returns in PE-owned companies**
The analysis of returns shown in Table 7 has been compiled by ATP-PEP on the basis of reports received from individual PE firms (DVCA members) who were asked to provide returns data (cash flow) for all their investments fully realised after 31 December 1999.

The data-set is assumed to contain the vast majority of the total volume on the Danish market within the area of focus of the analysis, namely investments realised after 31 December 1999. The data-set does not include venture investments, but it has been left to the individual PE firms to assess which transactions to omit from the analysis on this basis. DVCA has, however, been in dialogue with the individual firms as to the selection criteria to be applied.

TABLE 4. EMPLOYMENT IN PRIVATE EQUITY-OWNED COMPANIES

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Number of employees globally (1000) | 43 | 42 | 39 | 36 | 30 |
| Ave. number of employees in DK (1000) | 22 | 22 | 21 | 21 | 17 |
| Ave. growth in PE-owned companies globally | 2% | 5.8% | 15.6% | 5.2% | 10.8% |
| Employment growth in DK | 1.6% | 1.5% | 1.0% | 0.9% | 0% |
| Private-sector employment growth in DK | 2.2% | 2.5% | 1.9% | 1.0% | 0% |

Note: Employment figures can only be compared one year back, as companies are being acquired and sold on an ongoing basis. In order to calculate growth, the employment figures have been calculated based on the same companies, thus excluding newly acquired and divested companies.

TABLE 5. TAX PAYMENTS IN PRIVATE EQUITY-OWNED COMPANIES

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Pre-tax profit (DKKbn) | 2.9 | 6.1 | 5.8 | 4.3 | 5.6 |
| Current tax (DKKbn) | 0.5 | 1.0 | 0.9 | 1.6 | 1.2 |
| Tax rate | 16.0% | 17.0% | 29.0% | 23.9% | 21.6% |
| Total tax revenues (DKKbn) | 60.0 | 49.7 | 47.5 | 45.3 | 44.9 |

Source: Tax revenues are based on information from the the Danish of Taxation.

TABLE 6. EQUITY INTEREST IN PRIVATE EQUITY-OWNED COMPANIES AT ACQUISITION DATE

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity interest | 40% | 43% | 38% | 53% | 44% | 45% | 48% | 64% | 51% | 43% | 33% |

TABLE 7. IRR IN PRIVATE EQUITY-OWNED COMPANIES

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Method 1 | 29.2% | 29.2% | 30.1% | 30.2% | 29.8% | 28.6% |
| Method 2 | 36.4% | 36.4% | 37.7% | 38.2% | 35.7% | 30.4% |

Note: The survey included a total of 123 companies. The data-set extends back to 1990.

**The internal rate of return (IRR) has been calculated using two different methods:**

1. A long cash flow, which follows the actual dates. The investment dates are therefore different, and vary from 1990 to 2006 (cf. above).
2. All investments are assumed to have been made at the same time: “year 0”.

# Active ownership and tax revenues

Corporation tax represents around 6% of Denmark's total tax revenues of approximately DKK 1,000bn, and DVCA has documented time and time again that PE-owned companies pay their corporation tax in the same way as all other companies – but also that the payments vary from year to year. However, other tax sources play a role too, and stimulating companies to grow will increase tax revenues. This is why DVCA focuses on the contribution organic growth makes to overall tax revenues. In recent years, PE-owned companies had grown more than their listed "peers", but in 2017 growth in these companies was slightly lower than in listed companies, resulting in an overall negative tax contribution of around DKK 90m from PE-owned companies.

**The following tax sources are taken as a starting point:**

- Corporation tax
- PAYE (tax at source) from employees in PE-owned companies
- VAT generated on sales by PE-owned companies
- Energy taxes and other taxes

If we add these items together, we see that PE-owned companies paid a total of DKK 6.4bn in tax in 2017.

TABLE 8. TAX REVENUES FROM PRIVATE EQUITY-OWNED COMPANIES

| Tax item | Calculation method | Proceeds |
|---|---|---|
| Corporation tax | Reported from Deloitte Online. The total amount is DKK 500m, 45% of which is assumed to be paid in DK | DKK 225m |
| PAYE | The 22,000 employees in DK earn an average of approx. DKK 250/hour, giving an average annual salary of DKK 400,000. This gives a total payroll of DKK 8.8bn, 43% of which is paid in personal income tax | DKK 3.8bn |
| VAT | Total VAT proceeds are DKK 213bn, of which we have calculated 1% | DKK 2.1bn |
| Energy taxes | Total energy taxes paid by the private sector are estimated at approx. DKK 17bn (source: Confederation of Danish Industry). The amount paid by PE-owned companies is made proportionate to the 1.6% share of employment | DKK 270m |
| Other taxes | A conservative estimate is that the business sector pays DKK 3bn in other taxes. We have calculated 1.6% of this, as these taxes are primarily paid by the private sector | DKK 50m |
| **Total** | | **DKK 6.4bn** |
| | | |
| Organic growth | Organic growth is the growth that arises in PE-owned companies adjusted for acquisitions and exits | 6.0% |
| Growth in listed mid-cap companies | Revenue growth in mid-cap companies has been calculated. This is assumed to be the growth that would have occurred anyway in the companies if they had not been taken over by a PE firm. (Based on available financial statements. The calculation is available from DVCA on request) | 7.4% |
| Net growth | Net growth is the additional growth that is created by PE-owned companies relative to comparable companies in the listed mid-cap index (i.e. 6.0% minus 7.4%) | -1.4% |
| **PE firms' tax contribution in 2017** | The PE firms' contribution is found by multiplying the net growth by the tax revenues paid by PE-owned companies (-1.4% of DKK 6.4bn) | **DKK -90m** |

Note 1: As reviewed in the previous sections, the PE-owned companies report a raft of data to Deloitte Online. These statements show that 22,000 people were working in PE-owned companies in 2017. As there are a total of 2.2m people employed on a full-time basis in Denmark, this is equivalent to 1% of the workforce working in a PE-owned company. With a total of 1.4m full-time employees in the private sector, this means 1.6% of private-sector employees work in a PE-owned company.

Note 2: The average rate of personal income tax for employed persons in Denmark is approximately 43% incl. labour market contribution.

# Acquisitions and exits 2017/2018

| COMPANY | INDUSTRY | PE FIRM INVOLVED | REVENUE (DKKM) |
|---|---|---|---|
| **Acquisitions 2017** | | | |
| Aclass A/S | Travel | Maj Invest Equity | 45* |
| Fertin Pharma | Medical chewing gum | EQT | 868 |
| Færch Plast | Industrial plastic products | Advent International | 2,080 |
| Global Connect | Data communication | EQT | 585 |
| Gram Equipment | Manufacture of ice cream machines and accessories | FSN Capital | 650 |
| Holmris Group | Development and sale of furnishing solutions | BWB Partners | 678 |
| Icotera A/S | Gateway and software solutions | Maj Invest Equity | 27* |
| Itadel (TDC Hosting) | Hosting solutions | Maj Invest Equity | 448 |
| LanguageWire | Translation | CataCap | 59 |
| Linka Energy | Biomass plants | VIA equity | 48* |
| Mansoft | IT consultancy | VIA equity | 85* |
| Mountain Top Industries | Accessories for pick-up trucks | Axcel | 170* |
| Nissens | Cooling solutions for the automotive and wind power industries | Axcel | 1,555 |
| TP Aerospace | Sale of aircraft wheels and brakes | CataCap | 428 |
| TRESU | Printing for the packaging industry | Altor | 598 |
| Westpack | Manufacture of packaging | Capidea | 48* |
| **Exits 2017** | | | |
| Aclass A/S | Travel | Capidea | 45* |
| Avanti WSH | Manufacture of accessories for the wind power industry | Polaris | 737 |
| Bach Composite Industry | Composite solutions for the wind power industry | BWB Partners | 419 |
| Færch Plast | Industrial plastic products | EQT | 2,080 |
| JKF Industri | Air filters, ventilation systems and pipes | Maj Invest Equity | 250 |
| Lagkagehuset | Food | FSN Capital | 665 |
| Muuto | Design and interiors | Maj Invest Equity | 197* |
| TCM | Kitchens and bathrooms | IK Investment Partners | 817 |
| Tytex A/S | Medical textiles | Maj Invest Equity | 201 |
| Union Engineering | $CO_2$ technology | Capidea | 331 |
| Ørsted A/S (DONG Energy) | Energy production | Goldman Sachs | 59,504 |
| **Acquisitions 2018** | | | |
| Budweg Caliper A/S | Renovation of brake callipers | Capidea | 70* |
| Continia Software | Software solutions | VIA equity | 35* |
| GUBI | Product design and development | Axcel | 88* |
| Menu A/S | Design and interiors | Polaris | 55* |
| REKOM | Bars and discotheques | CataCap | 161* |
| Søgemedier | Digital consultancy and media agency | Adelis Equity | 74 |
| **Exits 2018** | | | |
| DK-Foods | Food production | Maj Invest Equity | 48* |
| LESSOR Group | IT-based payroll and HR systems | Axcel | 27* |
| Netcompany | IT services | FSN Capital | 1,400 |
| Unwire | Mobile solutions | Maj Invest Equity | 41* |

* Gross profit.
The above list shows acquisitions and exits of Danish companies completed by PE firms that are members of DVCA. Companies that are owned by PE firms and are, as a minimum, large class C companies, must incorporate DVCA's guidelines for good corporate governance.
Download the full list of PE firms' acquisitions and exits in Denmark from DVCA's analytics universe: www.dvca.dk
Note: Revenue figures are based on the most recently published financial statements.

# DVCA’s guidelines

## Report from the Committee for good corporate governance in private equity firms

**Compliance at fund level**
This year, seven Danish PE firms are fully covered by DVCA’s guidelines for responsible ownership and good corporate governance. These are Axcel, Polaris, Maj Invest Equity, BWB Partners, Capidea, CataCap and VIA equity. Blue Equity has left DVCA and is therefore not included this year. However, a number of international PE firms that are partly covered by the guidelines such as EQT, FSN, Nordic Capital, Altor and Advent, are included.

Monitoring of compliance with the guidelines at fund level has involved a review of the Danish PE firms’ websites with a view to assessing whether the 15 elements in the recommendations for information on the PE firm’s website are in place. The review showed that all the firms either “comply” by having the information available on their websites as at 13 June 2018 or “explain” why some information has been omitted.

In addition, the PE firms have reported their own assessment of whether they consider there to be compliance with the guidelines’ requirements for communication with stakeholders in connection with acquisition and sale of companies; communication with investors; and relations with the industrial network. The outcome of this is positive, as the firms consider that they have complied with the guidelines to a very high degree.

## The table below illustrates compliance with the guidelines in the individual areas for Danish PE firms:

**Aspects relating to the management company**

| | | |
|---|---|---|
| 1. | Confirmation that the PE firm as a whole follows the “comply or explain” principle with regard to DVCA’s guidelines. Any departures must be explained | 100% comply |
| 2. | Description of the management company’s history, number of investment funds under management and total committed capital in active investment funds | 100% comply |
| 3. | Description of the management company’s teams, broken down into investment team, risk management, administration, etc. If the company has a board, name and position of members must be stated | 100% comply |
| 4. | Information on the status of the management company under the Danish Act on Alternative Investment Fund Managers (FAIF), including whether the company is: · Licensed – and thus fully covered by the Act on FAIF and supervision · Registered – and therefore only covered by the Act on FAIF to a limited extent | 100% comply |
| 5. | General description of the management company’s working methods in relation to acquisition and development of companies | 100% comply |
| 6. | General description of the management company’s investment policies in terms of CSR and ethics. The description may take the form of a reference to compliance with UN Global Compact, PRI or similar | 100% comply |
| 7. | Press contact available at the management company | Contact info provided |
| 8. | Possibility of downloading the management company’s financial statements | 100% comply |

**Aspects relating to the investment fund**

| | |
|---|---|
| 9. List of investment criteria in the individual investment fund, including:<br>a. Geographical focus area<br>b. Size of companies on which investments focus, measured by enterprise value | 100% comply |
| 10. List of names of investors in the individual investment fund and percentage breakdown of investors by type and country. An ideal breakdown would be: · Danish pension companies · Other Danish financial investors · Danish family foundations/private investors · Other Danish investors · Foreign financial investors · Other foreign investors | Investors are shown in groups and by name for certain funds |
| 11. Description of the co-investment programme (including carried interest) for the individual investment fund if it departs significantly from the market standard | 100% comply |
| 12. Information on whether the individual investment fund is covered by the Act on FAIF and thus has e.g. an associated depositary | 100% comply |
| 13. Possibility of downloading the individual investment fund's annual report on the website | 100% comply or explain |

**Aspects relating to the portfolio companies**

| | |
|---|---|
| 14. Description of the individual investment fund's portfolio companies, specifying: · Geographical location of head office · Sector (industrial, service, technology, IT, retail, etc.) · Responsible investment partner at the management company and reference to the portfolio company's website · Annual statement at a general level on the development in the individual portfolio company, supplemented by key figures for the company | 100% comply |
| 15. Possibility of downloading an annual report from the portfolio company (possibly as a link to the portfolio company's website) | Possibility of download or link to website |

The Committee's overall conclusion is that all the Danish PE firms have lived up to DVCA's guidelines.

**Compliance at company level**
50 companies were covered by the guidelines in 2017, compared with 52 in 2016.

Deloitte has checked that the companies' reporting of key figures and compliance are in agreement with their submitted annual reports and website information. The outcome is that the responses entered are essentially correct.

This year's survey shows that overall compliance with the guidelines regarding information in the portfolio companies' annual reports remains at 75-80%, as it always has done, which the Committee considers satisfactory in itself. However, there was a marginal fall in compliance from 78% in 2016 to 76% in 2017, which the Committee naturally cannot consider a satisfactory development. Historically, we have found that it typically takes 1-2 years for companies to incorporate the recommendations fully in their annual reports and procedures, for example in their audit committees. The Committee therefore still considers that the PE firms and their companies generally have a sharp focus on compliance with DVCA's guidelines.

**Corporate social responsibility**
DVCA's guidelines recommend that PE-owned companies adopt policies on corporate social responsibility. If the recommendation is followed, this means that – pursuant to section 99a of the Danish Financial Statements Act – the company must also explain in its annual report or on its website how it translates the policies into action and provide an assessment of the effect of this.

The self-assessment has shown that approx. 80% of the companies have taken the initiative to adopt a set of

**COMPLIANCE WITH THE GUIDELINES IN THE PORTFOLIO COMPANIES' ANNUAL REPORTS**

| 2017 | 2016 | 2015 | |
|---|---|---|---|
| **76%** | **78%** | **76%** | **Overall compliance (incl. aspects relating to risk management and internal control)** |
| 84% | 92% | 90% | Positive mention in management's review that the company is covered by the guidelines |
| 69% | 82% | 80% | Reference in management's review to DVCA's website |
| 69% | 72% | 69% | Annual report available on the company's website immediately after publication |
| 91% | 93% | 88% | Information on financial and other risks relating to capital structure |
| 80% | 73% | 76% | Information on employees, including number of employees at start and end of the year as well as new appointments and terminations in the financial year |
| 64% | 61% | 54% | Corporate Governance: · Information on which PE fund owns the company and its equity interest. · Information on who recommended the individual members of the senior management body (board of directors). · Information on the individual board members' current positions. · Information on the individual board members' other managerial posts, including positions on executive boards, boards of directors and supervisory boards, including management committees, in Danish and foreign companies, and demanding association tasks. · Information on the work of the senior management body (number of board meetings, use of board committees, etc.). · Direct shareholdings of the board of directors and executive board, aggregated in groups, if they exceed 5% on the balance sheet date. |

Note: The percentage indicates the proportion of the selected companies meeting the guidelines.

policies on corporate social responsibility, compared with 78% last year. The Committee considers this, too, to be a pleasing level of compliance.

**Management committee**
It is recommended that the companies establish an audit committee, the role of which can either by performed by a subcommittee of the board or by the full board. Approx. 50% of the companies have chosen to establish an audit committee, either in the form of the full board or a dedicated subcommittee. This is an increase of 10% on last year.

**Risk management and internal control**
It is recommended that the companies integrate risk management in the senior management body and implement internal controls to counter the key risks. It is further recommended that the companies report on this in their annual reports. The table below shows that compliance regarding implementation of procedures in the companies and internal management reporting on risk management remains at a very pleasing level.

The guidelines were updated three years ago, and in that connection, a recommendation was incorporated stating that the boards of PE-owned companies should decide whether to establish a whistleblower scheme with a view to facilitating appropriate and confidential reporting of serious contraventions or suspicions thereof. The reported data show that 54% of the companies have taken a decision on this, an increase from 40%.

Overall, the Committee considers there is generally a sharp focus on risk management and improving the internal control environment in the portfolio companies, which is highly satisfactory.

**RECOMMENDATIONS ON PROCESSES AND TRANSPARENCY WITH RESPECT TO RISK MANAGEMENT**

| 2017 | 2016 | 2015 | |
|---|---|---|---|
| 90% | 93% | 96% | At least once a year, the central management body identifies the key commercial risks associated with realising the company's strategy and overall goals, as well as risks in connection with the financial reporting |
| 90% | 80% | 88% | The central management body reports to the senior management body on an ongoing basis on developments within the key risk areas and compliance with any adopted policies, frameworks, etc., with a view to enabling the senior management body to monitor developments and take the necessary decisions |

# PE firms covered by DVCA's guidelines

| | Capital under management (DKKbn) | Investments in Denmark | Exits | Revenue in 2017 (DKKbn) | The PE firm's place of foundation | Managing partner in Denmark |
|---|---|---|---|---|---|---|
| Adelis Equity | 7.5 | 4 | 1 | 0.9 | Sweden | Steffen Thomsen |
| Advent International | 197.8 | 3 | 2 | 15.4 | USA | Thomas Joachim Hansen |
| ALTOR | 43.2 | 5 | 6 | 14.8 | Sweden | Søren Johansen |
| AXCEL | 11.2 | 9 | 39 | 6.4* | Denmark | Christian Schmidt-Jacobsen |
| BWB PARTNERS | 2.3 | 10 | 7 | 4.3 | Denmark | Jacob Bergenholtz |
| Capidea | 2.3 | 9 | 8 | 0.8* | Denmark | Erik Balleby Jensen |
| CATACAP | 1.1 | 8 | 0 | 4.5 | Denmark | Vilhelm Hahn-Petersen<br>Jens Hahn-Petersen<br>Peter Ryttergaard<br>Rasmus Lokvig |
| CVC Capital Partners | 319.5 | 0 | 5 | 0 | UK | Christoffer Sjøqvist |
| EQT | 318.5 | 8 | 15 | 12.1 | Sweden | Mads Ditlevsen |
| FSN CAPITAL | 15.8 | 5 | 3 | 6.3 | Norway | Thomas Broe-Andersen |
| Goldman Sachs | 256.0 | 4 | 1 | 4.9* | USA | Michael Bruun |
| GRO CAPITAL | 1.0 | 5 | 0 | 0.6* | Denmark | Lars Dybkjær |
| IK Investment Partners | 44.5 | 2 | 6 | 1.1* | UK | Thomas Klitbo |
| MAJ INVEST EQUITY | 4.3 | 12 | 55 | 4.5* | Denmark | Erik Holm |
| Montagu | 29.8 | 2 | 3 | 0.5* | UK | Sophie Hoas |
| NORDIC CAPITAL | 74.3 | 4 | 7 | 9.2 | Sweden | Lars Terney<br>Michael Haaning |
| POLARIS | 7.5 | 9 | 14 | 6.3 | Denmark | Jan Johan Kühl |
| silverfleet capital | 11.9 | 2 | 1 | 0.9 | UK | Karl Eidem |
| Triton | 29.7 | 2 | 0 | 2.6 | UK | Oscar Mosgaard<br>Urich Witt |
| verdane | 8.9 | 4 | 2 | 0.9* | Denmark | Pål Malmros |
| VIA equity | 3.0 | 8 | 7 | 1.4* | Denmark | John Helmsøe-Zinck |
| WATERLAND | 44.7 | 0 | 0 | 0 | Netherlands | Kaspar Kristiansen |

* Mixture of revenue and gross profit.
Note: Revenue is based on the most recently published financial statements.

**Trade association for venture capital and private equity firms and business angels**

DVCA is the trade association for a wide range of investors in Denmark and concentrates on making Denmark an even more attractive place to invest, both nationally and globally.

**More than 250 members**

DVCA has more than 250 members representing the whole investment chain from business angels through venture capital and private equity to institutional investors and associate members.

**Many years' experience**

DVCA was founded in 2000 and has its offices in Christian IV's old stock exchange building next to Christiansborg Palace.

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