NORTHERN LIGHTS IN ASIA

Carl Kistenmacher, Director of Investment Advisor **EQT Partners Singapore**, explains how the Swedish private equity firm has expanded its strategy over the past 22 years from focusing on Nordic investments to moving into mainland Europe, Asia and the US.

EQT has grown immensely in the last two decades. Can you give us a recap of its journey?
EQT now has almost 400 employees across three continents, which for a private equity house is remarkable. From its conception in 1994, EQT focused on investments in Scandinavia, then Europe, and more recently in Asia starting in 2006 and South East Asia in 2009. EQT has made 13 investments across Asia Pacific so far, including EQT Mid Market Fund's acquisition of I-Med Radiology Network, Australia's largest radiology provider, for US$400 million.

Why the shift in focus from the Nordics to Asia?
When EQT moved from purely Nordic-based investments to opportunities in Germany in 1999, it was a significant milestone, one which proved to be very successful. It became clear we were capable of expanding geographically and that EQT's governance model could be applied in different jurisdictions. EQT saw great investment potential in Asia and we felt it was a region where the governance model would work well.

How does EQT's governance model work?
EQT applies a corporate governance model to all majority-owned portfolio companies. The model provides clear roles and responsibilities for the board, the management team and EQT. One of the key differences compared to other sponsors is the importance it places on industry specialists. We carefully consider the needs of the portfolio company and its management team and handpick the relevant specialists from EQT's network of industrial advisors. This approach gives management access to tailored expertise to support them in the day-to-day running of the business.

Carl Kistenmacher joined EQT in 2009 after working in midcap private and public M&A at an investment bank in Stockholm.

> With market growth slowing, professionals need international experience to make their companies more competitive.

Another important aspect of EQT's governance model is the troika, comprised of the chairman, EQT partner and portfolio company CEO. While it does not have decision-making powers, the troika provides a sparring partner for the CEO and allows management to escalate and resolve issues without delay. We also require the industry experts to invest in the portfolio company alongside EQT and the management teams as a way of aligning everyone's interests.

Does the governance model work well across regions? How does an entrepreneur in, for instance, South East Asia react to the model?

There are differences in the reactions of business owners when introducing this model in Asia where board members and management teams are typically more conservative about how they invest and how much they invest than those in Europe. We find Asian management teams and board members are ultimately willing to invest, but we have to devote more time to explaining the process and proving how EQT can add value.

We are finding, however, that regional companies in Asia are increasingly seeking these types of models as they face more pressure to compete with international players. It can be difficult for these entrepreneurs to find that kind of knowledge and experience without going to competitors, so private equity houses have a unique opportunity to act as a safe haven.

How does EQT approach board composition for a new investment?

We spend considerable time selecting our network of industry specialists to ensure the competencies of the EQT portfolio company board members are tailored to the business requirements. We also have sector teams that evaluate whether we have the right mix of industry experience and skills on the board.

How does your approach create value for owners and management?

The main benefit of the governance model is that the troika provides a sounding board for the CEO that enables management to make decisions more quickly than a board that meets only six times a year. For example, if an add-on opportunity arises, the troika can evaluate that opportunity and determine the strategy so that when it reaches the board for decision it's well prepared and thought through.

What are the cultural differences in doing deals in Asia versus the West?
Some aspects of EQT's investment structure and governance model require more explanation in Asia because they are not yet as common in that market, such as our incentive models for management and the board of directors.

In what ways does the EQT ownership model work well in the Asian market?
EQT's ownership model is more hands on and integrated than those of many other sponsors, which provides greater comfort for more conservative companies and their founders. With market growth in Asia slowing in many countries, professional managers and owners need international experience to make their companies more competitive in the global market. A lot of international players are moving into Asia and competing with local companies, making it important for these local companies to adapt quickly to changing conditions. This is where we feel EQT can add value based on our experience with issues such as expanding into new geographies or deciding whether to invest new capital.

Which industries do you think offer the greatest potential for private equity investment in Asia?
The services and healthcare sectors. Healthcare in particular is interesting because different markets have very different levels of maturity. South East Asia, for example, has significant unmet healthcare needs and there is serious demand for growth in this sector. Government investment in healthcare is exceeding GDP growth in many countries like Vietnam, Indonesia and Philippines, where CAGR of government spending is 8% to 15%. In the long run this is not sustainable so they will need private actors like EQT.

M&A trends

What M&A trends do you think we'll see in Asia over the next five years?
When the market slows in places like Asia, companies have to adapt to compete. This leads to an increase in consolidations, which drives M&A activity. For example, activity in the healthcare sector in South East Asia is slow, particularly for mid-market transactions. We are preparing EQT for more activity in this sector as financing becomes available and more companies need to consolidate. What is currently holding back volume is the need for pricing calibration between sellers and buyers. In Europe buyers and sellers seem more willing to agree to price adjustments but in Asia we are still finding large gaps, partly because there are a greater number of comparable transactions being conducted in Europe that buyers and sellers can use as benchmarks for valuation. I think the valuation gaps in Asia will close as we see market growth slow down even further.