

PRIVATE EQUITY IN SWEDEN

An analysis of the private equity industry in Sweden and two case studies on individual companies' competitive strategy



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Abstract

Private equity is a growing global phenomena and private equity companies have become a major force in many of Sweden's industries. These companies own portfolio companies which together employs around 190 000 people and have an annual revenue of over 318 billion SEK.

The purpose of this thesis was to describe and analyze the Swedish private equity industry and individual companies' competitive strategy to increase value of portfolio companies and to attract capital.

The methodical approach of this thesis was qualitative and abductive. Only public data was used bar the two interviews that was conducted with the case companies. The theoretical framework for the industry analysis was Porters five forces. The case companies were analyzed on the corporate, business and operational levels of strategy. A resource based view was used to further analyze the case companies' strategic capabilities.

The main findings from the industry analysis was that the vast majority of investors in Swedish private equity funds are made by professional institutions and a large amount of the investments were of international origin. The large pool of investors makes it easier for Swedish private equity companies to attract capital. The number of new private equity funds have been declining since 2007 but at the same time the average fund size has grown. There are many differentiating factors between private equity companies. This differentiation is beneficial for the private equity companies as they become less commoditized from the viewpoint of an investor. A private equity company's management team will impact the performance and it is therefore essential for a private equity company to have a skilled management team. A good track record was found to be an important indicator for a skilled management team.

One of the case companies, Volati, is focused on consolidating their portfolio companies in an effort to create synergies. Volati have a long-term ownership style that can be attractive to certain sellers of companies which can yield a lower valuation for Volati when purchasing a company.

The other case company, Ratos, is more short-term focused and keeps their portfolio companies autonomous which limits their opportunities to achieve synergies. Ratos wants to find companies that are good standalone investments. Volati values strategic fit more than Ratos since they aim to create synergies and to consolidate their portfolio companies.

Both companies are of the opinion that there are high valuations on the market right now. Despite this both companies continue to invest. Both companies increase the value of their portfolio by providing various support functions and to actively manage their portfolio companies at the top management level. Since both of them only supports their portfolio companies at the top level they don't need a lot of manpower to manage their companies. Both companies utilize consultants to increase capacity when needed and to gain access to outside expertise.

Skilled employees, good structural capital and a good reputation was found to be strategic capabilities that can make a company more attractive to both investors and to increase the value of their portfolio companies.

KEYWORDS Private equity, Sweden, Competitive strategy, Listed private equity, Portfolio management, Investor, Investing

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Glossary and definitions

These words and expressions are clarified in this section to explain how they are used in this thesis in order to avoid confusion.

Private equity is a collective term for investments made in equity in a company that is not publicly traded on a stock exchange.

Portfolio company is the name for a company that a private equity company owns.

Private equity company is a company that has a business model which includes only investing in private equity.

Private equity industry is a term used to group together every type of company that only invests in private equity in this thesis. Other alternative definitions may exist.

Private equity fund is a company that invests in private equity by utilizing a fund structure. A fund contains the capital utilized for the investments and the company manages the funds. See figure 8 for an illustration of the capital structure.

Private equity company with internal capital is a company that invests in private equity by using the companies own capital.

Standard private equity model is a term used to describe the short term business model which is commonly used by private equity company's. E.g. buy a company and sell it 5-8 years later.

1 Background & problem discussion

1.1 Global & Swedish private equity market

Private equity is a collective term for investments made in equity in a company that is not publicly traded on a stock exchange. The term “private equity” is often used interchangeably with “private equity fund”.

The global private equity industry has grown in recent years and especially in developed economies. One possible reason for this is the search for alternative investments in economies that go through economic and institutional maturity as there is evidence for decreased profitability since 1990s in developed markets (dos & Alvaroda, 2016).

Private equity, although commonplace in many parts of the world, is concentrated in USA and United Kingdom which together stands for around 60% of raised capital worldwide. Private equity giants from USA established themselves in London. This is one of the reasons why London is the center for private equity in Europe (Leleux, Swaay & Megally, 2015). There is a continuous reduction in global differences, with Brazil, China and India on the way up.

Private equity activity can boost a country’s internal market by efficient resource allocation and fundraising. Therefore it is highly likely that countries will try to attract international investments of private equity funds by creating attractive conditions (dos & Alvaroda, 2016).

In the early 1900s the Swedish investment companies consisted almost solely of private actors and families with close knit connections to major Swedish banks (Economist, 2007). Commercial Private Equity companies as it appears today started in 1940s in USA. During the 1980s it spread to Sweden as one of the first countries in Europe. The private equity industry in Sweden rose quickly during the early 1980s mostly due to a rising stock market and increased interest in stocks in the general public. The private equity industry’s growth slowed down in the latter part of 1980s due to a slowing down in the economy. The private equity industry didn’t really have a big impact on the Swedish market until mid-1990s. The private equity industry had assets of only 16 billion SEK in 1996 which then grew to 230 billion SEK in 2004 and has since continued to be a major part of risk capital investments in Sweden (Hamzeh, 2009).

Private Equity companies have become a major force in many of Sweden’s industry sectors. They now own more than 800 portfolio companies which together employs around 190 000 people and have an annual revenue of over 318 billion SEK (SVCA a, 2015).

For private equity companies to exist there needs to be investors willing to provide capital. In today’s globalized world an investor has many different options to invest in. The market as a whole as well as individual companies needs to bring sufficient returns compared to its risk profile to attract investors. This means that individual companies must not only compete for capital but also perform afterwards to attract capital in the future.

Private equity companies’ business model involves investing in portfolio companies. There is obviously a large amount of risk in this business model and to make the expected returns they actively manage these companies. How do they increase the value of portfolio companies?

How do private equity companies meet the challenge of attracting capital, creating value in their portfolio companies and at the same time cover their own costs?

1.2 Purpose

To describe and analyze the Swedish private equity industry and individual companies’ competitive strategy to increase value of portfolio companies and attract capital.

1.3 Delimitations

The area of focus is Swedish private equity industry and therefore only Swedish private equity companies are of interests. These private equity companies are allowed to invest in portfolio companies outside of Sweden. The companies are only allowed to invest in private equity and nothing else. The case studies will contain two private equity companies in total.

2 Methodology

2.1 Research strategy

2.1.1 Methodological approach

There are four fundamental approaches of how to conduct an academic study. The appropriate approach is determined by what the purpose and nature of the study is. The four approaches are descriptive, exploratory, explanatory and problem solving. It's possible for a study to have multiple approaches (Höst, Regnell & Runeson, 2006).

Both the descriptive and exploratory methodological approach was chosen for this study. The goal of the descriptive approach is to research and describe how something works or the way it is conducted. The goal of the exploratory approach is to gain deep knowledge of how something works or the way it is conducted (Höst, Regnell & Runeson, 2006).

The descriptive approach is suitable because a part of the purpose is to describe and analyze the Swedish private equity market. The exploratory approach is suitable because of the other half of the purpose which is to describe and analyze individual companies' competitive strategy to increase value of portfolio companies and attract capital.

2.1.2 Logical approach

An academic study has a logical approach which can be deductive or inductive or a combination of the two called abductive. The deductive logical approach is to first conduct a literature review then derive logical conclusion from the literature to form a hypothesis/propositions. These hypothesis/propositions are then tested against empirical data and is presented in a final conclusion.

The inductive logical approach is conducted when the existing knowledge and theories are not sufficient. Instead this approach starts with gathering empirical data and from that new propositions and theories can be derived (Gyöngyi Kovács & Karen M. Spens, 2005).

This study doesn't fit perfectly with either inductive nor deductive logical approach. The study is best described as having an abductive approach. The study is of explorative nature but the theories were utilized to support the description and analysis of the empirical data gathered. The theories goal was to structure the analysis and data gathering and not to make any predictions of outcome. The result of the analysis is not a theoretical framework.

2.1.3 Quantitative and qualitative approach

Quantitative analysis is to analyze quantitative data. This is commonly done by using statistical methods. Qualitative analysis is to analyze qualitative data. Qualitative data is different in that sense that it cannot be represented by numbers (Höst, Regnell & Runeson, 2006). This thesis contains both quantitative and qualitative empirical data. The methods of analyzing the data is much closer to the qualitative approach as no advanced statistical methods are used.

2.2 Literature study

The literature study is an important part of the academic research process. It allows the research to build upon already established knowledge and reduces the probability of replicating research. It's also essential for aiding an external reviewer to understand the research and how to evaluate/utilize it (Höst, Regnell & Runeson, 2006).

The first purpose of the literature study was to provide the author with the knowledge base needed to create this thesis. The first objective was for the author to get acquainted with the subject matter of private equity in general and in Sweden in particular. This was achieved by studying articles, books and reports from sources like academia, governmental organizations, non-governmental organizations and newspapers. The other purpose of the literature study was to find and select appropriate theoretical framework that would be used for analysis of empirical data.

This was achieved by studying academic literature online and in physical books. When searching for the literature the sources was found using LUBsearch and google scholar. The theoretical framework was used as a guide to what empirical data is needed to conduct the analysis.

When searching for literature a spreadsheet was created to keep track. In this spreadsheet useful sources were saved and given metadata such as what information it contained, type, and how relevant it was deemed to be for the project.

2.3 Data collection

2.3.1 Case studies

2.3.1.1 Research implications of case studies

A case study can be used to thoroughly explore a phenomena or object. Most of the data gathered in a case study is commonly qualitative. Common techniques for data collecting are observations, interviews and archive research. Case studies are often not systematically selected and the quantity of them might not be sufficient to provide statically proven patterns. If case studies are conducted in a series, then the more of them that is completed the higher the probability is that a correct generalized conclusion can be made. Case studies can offer deep knowledge and is more flexible than other types of studies (Höst, Regnell & Runeson, 2006).

Case studies was perceived as an effective way to analyze an individual company's competitive strategy. There was decision made to conduct two case studies due to time constrains. This offers the possibility to gain deep knowledge into two companies. In having at least two companies there is the opportunity to analyze the differences and similarities between them. There can be no generalizations or statistical analysis from this material alone but can still provide valuable insights.

Interviews and archive analysis was chosen as the methods of data collecting. Archive research because of the vast amount of public data. Interviews was chosen to gain deeper complementary information that was not found from the archive research.

2.3.1.2 Archive research

The established theoretical framework set the requirement for what data needed to be collected. Only public data was collected during the archive research. The data was mainly gathered from their own websites or their annual reports. Since there was an abundance of data in their own annual reports and their websites there was no need to use a systematic search for the data.

2.3.1.3 Selecting the case companies

The first criteria that was to only include public companies. This was to insure an access to information, transparency and traceability. Furthermore, the companies had to only invest in private equity and nothing else. When a primary search was conducted it was apparent that there were very few companies that only invest in private equity in Sweden that are publicly listed. This is why no systemic method of selecting the companies, except the criteria mentioned, was utilized.

A spreadsheet was created with a list of public Swedish companies. This spreadsheet had a headline of what kind of industry the company was operating in and with a checkbox for if the company met the criteria of investing in private equity only. After reviewing many companies and searching for potential candidates with the help of google it became apparent that there would hardly be any companies that met both of the criteria. Once two suitable case subjects were identified, no other runner-ups was found, it was determined that those would be the case companies. Those companies were Ratos and Volati.

Ratos identify themselves as a private equity company but Volati does not. This is not an issue due to the fact that both of the companies does have investing in private equity as an essential part of their business model.

2.3.1.4 Interviews

Interviews can be categorized into three different types which are; structured, semi-structured and unstructured. A structured interview is based on a predetermined questionnaire that is followed with no addition or subtraction. A semi-structured also has predetermined questions but the order and the phrasing of the questions can be altered from interview to interview. During an unstructured interview the interviewee is left to speak more openly. The interviewee can decide what is brought up when reflecting on the general topic and the questions asked. A structured interview is very much like an oral survey and is better for quantitative analysis. The unstructured interview is more qualitative and allows for more flexibility when conducting the interview (Höst, Regnell & Runeson, 2006).

The interviews were conducted in the unstructured style. This is because the interviews were supposed to be complementary to the archive research. This offers the possibility to fill in any knowledge gaps and to further develop interesting data points that wasn't fully understood by the author. With open-ended and of follow-up questions the option to dig deeper into unexpected areas exist.

2.3.1.5 Interview questionnaire

An interview can be divided into four phases; context/purpose, introductory questions, main questions and conclusion. During the context/purpose phase the interviewer explains the context and purpose to the interviewee and why they were chosen. The introductory questions purpose is to get the conversation flowing as smoothly as possible. The main questions are supposed to be asked in a logical order. The conclusion is there to give the interviewee then possibility to add anything to the conversation and to be informed about the follow-up process (Höst, Regnell & Runeson, 2006).

The questions asked by the interviewer should only be open-ended questions. The interviewer should also avoid yes or no questions and any leading questions. This is to strive for the interviewer to remain neutral and objective and not to lead the interviewee.

The interview must adhere to legal and ethical requirements. The interviewee must be informed of how this information will be used and the purpose of the study. (Hancock & Algozzine, 2011).

The questionnaire can be found in the appendix of this thesis. It does not however contain every question asked during the interview as the unstructured approach allowed for follow-up questions. The questionnaire was constructed with the four phases in mind and to follow ethical and legal requirements. The purpose of the interview was to complement the information given by the archive research. Due to this, the interview does not try to collect data on any information that was already gathered.

The collected data allowed for the analysis of the individual companies. The analysis was to be carried out by an already existing theoretical framework. The theoretical framework and the data collected from the archive research served as the basis upon which the questionnaire was created.

2.3.1.6 The interview process

Both companies were enquired for an interview by sending an email directly to the would become interviewee. The email contained a brief introduction to the thesis and the purpose of the interview. Two telephone interviews were held in total, one with each of the companies. One interview was conducted with Daniel Repfennig, a senior investment manager at Ratos on 28 of April 2017. The other interview was with Voria Fattahi, Volatis investment director, on 8 of May 2017.

After the interview was conducted the author sent the out a written transcript of the information that would be used in the thesis to the interviewee. The interviewee only got to access information gathered from the interview. The reason behind this was to give them an opportunity to clarify and to avoid any misunderstanding. This would increase the likelihood of the text being an accurate representation of their thoughts and opinions. Only minor changes were suggested by the interviewees after reading the texts.

2.3.1.7 Written material

Written sources were prioritized over oral sources when writing the empirical data section of the case studies. In essence that means that if the same information came up both in the archive research and an interview the archive research would be quoted as a source due to the increased transparency and traceability.

2.3.2 Industry analysis: empirical data

The established theoretical framework functioned as a guide to what data needed to be collected. To collect the data for the industrial analysis only public information was used. The data came from multiple sources but some of the data points are only from the private equity funds of the private equity industry in Sweden and does not cover every company that invest in private equity in Sweden. This is due to the lack of data from other companies. Private equity funds in these cases represents the whole industry which might not be perfectly representative of the other companies in the industry. The sources were already identified while conducting the literature study.

2.4 Research process

The research process is illustrated in figure 1. The first step of this thesis was to define a research question and a scope for the thesis. In the early phase a literature study was made to familiarize the author with the subject. In the latter part of the literature study the focus shifted to search for theoretical frameworks for the analysis. After the theoretical framework was selected and studied it was possible to start collecting data. It started with the industry analysis as this would make the author even more familiar with the subject which can be helpful when conducting the case studies afterwards. After the data was collected the actual industry analysis was completed. After that came the archive research for the case studies and the requests for interviews. The interviews were conducted and the empirical data for the case studies was now complete. The case studies were then analyzed which was followed by the conclusion and suggested further research.

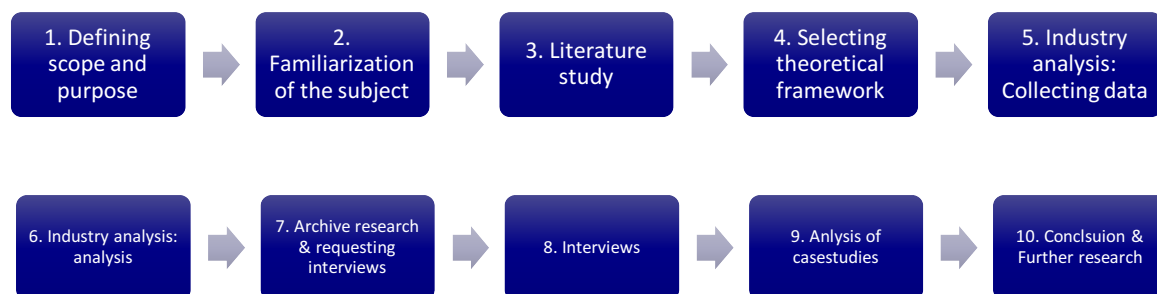


Figure 1 The research process

2.5 Credibility

2.5.1 Reliability

Reliability relates to how accurate and trustworthy a research project is in regards to data collection and analysis. To achieve a high level of reliability a project needs to be careful with their data collection and analysis. To achieve this there should be a clear description of how the project was carried out to allow for a reader to evaluate the process. To have an external person review the data collection and analysis is also a way to expose weaknesses and to fix them. To present the interview subjects with the result of their interview is another way to make sure that the information is correct. The selection process for any subjects is also very important (Höst, Regnell & Runeson, 2006).

This whole chapter is dedicated to give the reader information of the methods used and the reason behind the research process. There is also a clear transparency of how the case companies were selected. The lack of suitable companies for the case studies is not viewed as an issue.

There was never an aim to create a generalized conclusion about the whole industry but instead explore how two individual companies acts. The thesis also aims to inform the reader of any generalizations and assumptions made in the analysis. The primary data, the interviews, have been reviewed by the interviewees in order to increase reliability. The whole process behind the interviews as well as the questionnaire is also included to increase transparency.

2.5.2 Validity

Validity relates to if a research project is actually measuring what it aims to measure. One example is if you intend to measure a person's professional experience by only measuring how many years of employment. In this case one should take into account what the person has been doing during those years to increase validity (Höst, Regnell & Runeson, 2006).

The industry analysis has a questionable level of validity if taken at face value. To take everything into account when measuring/evaluating one of porters five forces would be an impossible task. There is simply too much which can influence it. But the theory is never used to quantify the forces. It's used to identify important industry dynamics and data points.

On some topics both the case studies and the industry analysis covers/measures the same topic. This could potentially increase the validity of the results.

3 Theory

3.1 Introduction

The theoretical framework in this thesis needs to support the accurate portrayal of the Swedish private equity industry and the competitive strategy of individual private equity companies.

Porter's five forces was selected as the framework to analyze the private equity industry. This framework was selected because it looks at how competitive an industry is and in return how attractive it is for the general company. This will grant knowledge into which major competitive forces exists within the industry. This knowledge will then be useful when looking at what competitive strategies are utilized in the industry to handle these forces.

To analyze a competitive strategy of an individual company there needs to be a generalized strategy framework to use. The strategy field can be divided into corporate-, business- and operational level of strategy. Each level is then described in its own chapter. These chapters describe the most important topics at each specific level. This information can be used to understand which strategic options exist and the rationale behind it.

Resource-based view can be used to analyze strategic capabilities of individual companies. This yields a deeper insight of the true power and sustainability of the competences and resources that a company disposes of. The VRIN framework can be used to evaluate how valuable and sustainable a strategic capability is.

3.2 Industry analysis

An industry analysis is conducted to research the complexities and nuances inside of an industry/market in a structured way. The finished analysis can then be used when working with big picture strategy such as accessing attractiveness of a market or how to be a more competitive company (Grant, 2010).

3.2.1 Porter's five forces

Porter's five forces is a framework that can be used to analyze the level of competition inside an industry. It can also be used from the viewpoint of a specific company to create an understanding of its competitive landscape. The five forces are: threat of new entrants, threat of new substitutes, bargaining power of suppliers, bargaining power of buyers and the extent of rivalry between competitors (Grant, 2010).

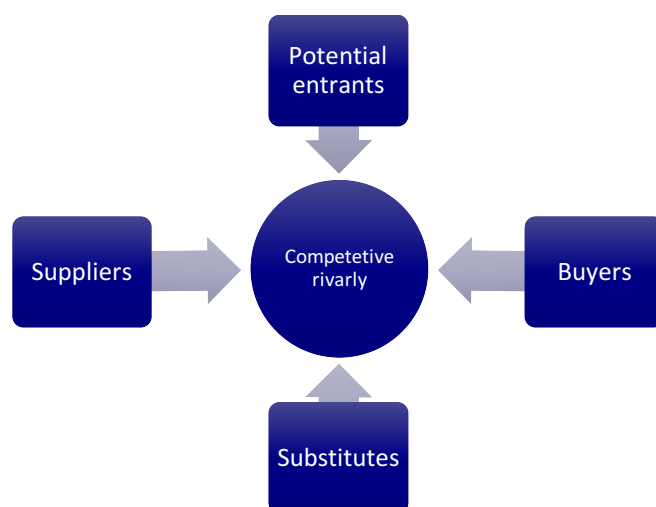


Figure 2 Porter's five forces (Grant, 2010)

Potential entrants

The easier it is to enter an industry the greater the threat of entry is. High barriers to entry makes the industry more attractive for the established actors due to a reduced threat of new competitors. Economy of scale can in some industries be a very high barrier of entry. New entrants will have to compete with competitors that already have established large-scale production. The new entrants will have a higher unit costs until it is able to reach a similar production level. High investment requirements and when experience affects efficiency also poses as barriers to entry (Grant, 2010).

Manufacturers often have control over supply or distribution channels through ownership, special arrangements or just loyalty. This barrier can sometimes be overcome by new actors through bypassing a middleman. Dell, the computer manufacturer, did this when they chose to sell directly to the consumer. Legislation and government action can have large effect on possibilities for new actors. Patents running out or deregulations can sometimes open up a market for more competition. When purchasing commodities the buyer cares mostly about the price and if the product is more differentiated the quality and brand loyalty is more important. Therefore, it's possible for differentiation to reduce the threat of entry (Grant, 2010).

Substitutes

Business managers often focus too much on competitors and neglects the threat of substitutes. Substitutes can reduce the demand or make the service or product obsolete to customers. The price/performance ratio is very important when comparing against substitutes. As long as a substitute can compete with either price or performance it can be a threat to the industry (Grant, 2010).

Buyers

If the buyers are powerful they can demand lower prices and enforce costly changes to product or service offering. When a few large buyers account for most of the sales there is an increase in buyers' power. A buyer is more likely to squeeze their suppliers if a purchase is of great monetary value to the buyer. If the cost of switching supplier is low then the buyers' power is increased. The higher the power of the buyer the less attractive the industry is (Grant, 2010).

Suppliers

When a few large suppliers controls most of the supply there is an increase of supplier power over the buyers. High switching costs makes it difficult for the buyer to switch to another supplier and thus increases the suppliers' power. If there is a possibility for the supplier to circumvent a middleman there is also an increase of suppliers' power (Grant, 2010).

Competitive rivalry

All the other four forces limits the direct competitive rivalry between a company and its immediate rivals. The greater the other forces are the more competitive rivalry will exist in the sector which will be detrimental to its incumbents.

If an industry contains competitors of roughly the same size there is a risk of intense competition to gain dominance, this can lead to aggressive price cuts. With a growing market a company can simply grow with the market but when the market is stagnating or declining any growth has to come from a competitors' markets share. Price competition and low profitability is common in low growth industries. High exit costs also increases rivalry and low differentiation in the market leads to price competition (Grant, 2010).

3.3 Levels of strategy

According to “Levels of strategy” there exists three levels of strategy which are corporate-level strategy, business-level strategy and operational strategies.

Corporate-level strategy is the strategy that concerns the overall scope of an organization. This may include geographical scope, which products or services to offer, mergers and acquisitions and how to allocate resources in the organization (Johnson, 2014).

Business-level strategy is how specific business units should compete in their respective markets. This level of strategy is often called competitive strategy. This may include innovation, scale, responding to competitor’s actions. This level needs to fit with the corporate level strategy (Johnson, 2014).

Operational strategies concern how the components of an organization should operate to effectively deliver the corporate- and business-level strategies. Managers of for example marketing, human resources or sales typically set this strategy (Johnson, 2014).

3.3.1 Corporate strategy

Corporate strategy is set by investors, board of directors, senior partners and top management depending on the structure of an organization. There are many different strategic considerations to make at this high level and it’s even possible to reconsider the purpose and mission statement for the organization.

Corporate strategy will contain the scope or breadth of an organization which will answer which products or services to provide and which markets to serve. This strategic level also includes a plan of how to organize the corporate structure. (Johnson, 2014).

3.3.1.1 Diversification

An organization can decide to increase its range of products or markets served, this is called diversification. Related diversification is a term for when an organization diversifies into products or services with close relationship with existing business. Product development, market development and conglomerate diversification can be used to achieve diversification (Johnson, Whittington & Scholes, 2012).

Markets penetration is when a company increases its share of current markets with existing products. This doesn’t require new strategic capabilities and the company doesn’t need to break into unexplored territory therefore carries low risk (Johnson, Whittington & Scholes, 2012).

Product development is when a company delivers modified or new products or services to existing markets. This may require new strategic capabilities and can be expensive. Compared to market penetration this activity can be riskier even though its serving same customers as before (Johnson, Whittington & Scholes, 2012).

Markets development is when offering existing products to new markets. This is typically less risky than product development but often require a small amount of product development to alter the product to the new market (Johnson, Whittington & Scholes, 2012).

Conglomerate diversification is to venture into new markets with new products. Obviously this carries a large amount of risk and depending on how close it is to its current scope may require varying degrees of new strategic capabilities (Johnson, Whittington & Scholes, 2012).

Diversifications drivers

The reason for diversification can be to grow, spread out risks, exploiting economies of scale, stretching out corporate-level managerial competences across a portfolio of business and so forth. Diversification efforts which creates value can be described as synergistic. Synergistic means that activities or assets complement each other and is of greater value as a whole instead of as individual parts (Johnson, Whittington & Scholes, 2012).

3.3.1.2 Integrate or outsource

To outsource is to contract out activities to external suppliers which previously was carried out internally and to integrate is to do the opposite. The main reasons for outsourcing is to lower costs or to get access to knowledge and experience which the organization does not possess. Outsourcing leads to increased risk from the subcontractor in forms of opportunism and possibility for conflict of interest (Johnson, Whittington & Scholes, 2012).

3.3.1.3 Vertical integration

Vertical integration is to integrate parts of the value network into the organization. When incorporating such activities, the company acts as its own supplier or customer. For example, a car manufacturer could acquire a component manufacturer to supply its car production, this is called backward integration. If the same car manufacturer would acquire a car retailer to sell their cars it would be called forward integration.

Vertical integration allows the company to capture more of the profits in a market and more control over the value network. The downside is that it may yield a lower percentage of return on investment compared to the original business. Another downside is if the company is not well equipped to handle the new entity (Johnson, Whittington & Scholes, 2012).

3.3.1.4 Organic development, alliances, mergers and acquisitions

Organic development, strategic alliances, mergers and acquisitions are strategic methods on how to achieve a corporate strategy.

Organic development is the default option to consider, it's the do it yourself approach and relies on internal capabilities. The approach builds on current capabilities and developing new ones therefore corporate entrepreneurship is key to be able to create and sustain organic development (Johnson, Whittington & Scholes, 2012).

Mergers and acquisition

Acquisitions refers to the action of taking over the ownership of another company. Mergers refers to two separate companies joining together to form a new company as more or less equal partners. The term M&A is often used (Johnson, Whittington & Scholes, 2012).

One reason for M&A is to extend the current business in terms of products and markets. This can be achieved quicker, possibly cheaper and with less risk compared to doing the same thing through organic growth. One other reason is to consolidate, which through increased scale of economics, shared support functions and increased market power can be beneficial. Increased capabilities are also a reason for M&A which makes it possible to acquire for example a new technology instead of developing it by themselves (Johnson, Whittington & Scholes, 2012).

There is a lot of risk connected to M&A. Are the expected benefits accurate and if so will the management be able to extract that value after the deal? The valuation is very important as this sets the price for the deal and afterward the integration needs to be done with care in order to reap the benefits (Johnson, Whittington & Scholes, 2012).

Strategic alliances

A strategic alliance is formed when two or more organizations share resources and activities. The difference from M&A is that only partial or no ownership changes are made. An equity alliance can be accomplished in the form of a joint venture where two or more companies form a new separate company which they collectively own. There are also non-equity alliances which is often based on contracts. Franchising and licensing are examples of this.

Strategic alliances are attractive when the companies by themselves don't have enough resources for a project. To co-develop new technologies reduces risks and costs. Another motive can be when the companies have complementary products to make a combined effort to make their respective offering stronger (Johnson, Whittington & Scholes, 2012).

3.3.1.5 Corporate parenting

A corporate strategy can entail owning portfolio companies. The corporate strategy depicts how much management and control the corporate parent will exercise on a specific portfolio company. The strategy can also contain how much cooperation is expected between companies and which synergies are created by doing so.

The main three types of parenting are portfolio manager, synergy manger and parental developer (Johnson, 2014).

Portfolio managers are active investors. They can act in ways whom individual shareholders are typically too dispersed or too inexperienced to do. They mainly just invest in companies that they see as undervalued and afterwards influence top level management decisions. Their corporate offices are often very small.

The synergy mangers do everything a portfolio manager does but also tries to create value from synergies between its portfolio companies. Synergies can be achieved by the portfolio companies cooperating with each other but also by the corporate parent providing services and resources for the portfolio companies. This requires the portfolio companies to be a good fit with the corporate parent and the other portfolio companies. Synergy mangers often have bigger corporate offices compared to portfolio managers.

The parental developers are similar to synergy mangers but more focused on what the corporate parent can provide for the portfolio companies. A corporate parent could for instance provide a valuable brand or specialist skills. Parental developers typically have an even bigger corporate office compared to synergy mangers (Johnson, 2014).

3.3.2 Business strategy

3.3.2.1 Porters generic competitive strategies

According to Porter there are three generic competitive strategies, overall cost leadership, differentiation and focus (Porter, 1980).

Overall cost leadership

To achieve overall cost leadership in an industry requires a strong focus on cost cutting. This needs to be in all areas such as sales, R&D, advertising and so forth. A low-cost position can yield the company above average returns and its lower cost can help maintain profitability even when rivals compete by price cutting. This strategy offers protection against strong buyers since they can only drive prices down to the next most cost effective competitor. This strategy typically yields protection from new entrants by scale economies. By achieving the position of overall cost leadership makes the company less vulnerable to substitute threats relative to its competitors (Porter, 1980).

The strategy offers protection from all of Porter's five forces. To achieve the cost leadership position often requires a high market share, organizational structure and products that is suitable for this strategy. There is often a high need for capital to attain this position and a lack of profitability in the beginning. After initial success continual reinvestment in modern technology is needed to maintain the position (Porter, 1980).

Differentiation

The objective of this strategy is to create a service or product that is perceived as unique on the market. Preferably this is done in more than one dimension such as quality, service, customization and so forth. This will often create brand loyalty by being the undisputed choice for certain customers. Differentiation protects against competitive rivalry by brand loyalty of customers which reduces their price sensitivity. The increased brand loyalty and unique offering protects against new entrants. The higher margins help with supplier power and the lack of comparable competitors mitigates the buyers power. The brand loyalty can offer increased protection from substitutes.

It can cost a lot to be able to deliver this unique offering to customers and in those cases it's not compatible with being the most cost effective company in the industry (Porter, 1980).

Focus

This strategy is to focus on a certain customer segment, product line or geographical market. The other strategies are focused industrywide whereas this is having a narrow focus on a particular segment. With such a strong target the company will be able to serve its customers better than the broader competitors. The strategy can work by either delivering a differentiated and or lower cost product to their specific target. The strong focus can also protect against substitutes by focusing on customers that are the least vulnerable to substitutes (Porter, 1980).

3.3.2.2 Interactive strategy

Interactive strategies are the notion that generic strategies need to be chosen and adjusted by looking at what the competition is doing. If every other competitor is chasing after cost leadership then differentiation strategy might be the best (Johnson, 2014).

Interactive price and quality strategies

Model the market in a two-dimensional model with price and perceived quality as dimensions. This will clearly show how actors are positioned compared to each other. This can then be used to speculate what the future competitive landscape can look like and what appropriate actions to take.

For example If one company is rapidly improving its perceived quality other companies must adapt to this either by improving their quality or by lowering their price. If they are not responding its likely they will lose market share and in the long run become uncompetitive in the market.

Basically the actors do moves and counter moves to attain a more attractive market position. It is important to continually analyze what the competitive landscape looks like and act accordingly (Johnson, 2014).

3.3.2.3 Cooperative strategy

The competition over price and quality can sometimes escalate to the point where it has become dangerous for all actors. It can sometimes be beneficial for a company to limit competition. Another way to gain an advantage than straight up competition can be to collaborate with other companies in the same market. Collaboration can be both formal explicit agreements to cooperate as well as informal mutual understandings between companies (Johnson, Whittington & Scholes, 2012).

These are the general competitive benefits that collaboration can yield in terms of porters five forces. Purchasing powers against **suppliers** increases and there is a possibility of standardization of requirements which will allow for cost reductions for all parties.

Increased supplier power against **buyers** by making it harder for buyers to shop around. This can allow them to maintain or increase prices.

Protect against **new entrants** by having lower costs and by being able to coordinate against the new entrant with their collaborators.

The lower costs provide protection against **substitutes**. Being able to cooperate R&D efforts to combat substitutes is also a possibility (Johnson, Whittington & Scholes, 2012).

3.3.3 Operational strategy

Operational strategy is to focus all business functions to carry out the strategies on the corporate- and business-level. Typically, a separate operational strategy is set for each department or function and the strategies are created by their respective managers. These strategies will set goals, prioritize work, allocate resources and improve processes (Johnson, 2014).

3.3.3.1 The value chain

Porters value chain can be used by acting as a generic description of activities. These descriptions can help managers segment and analyze their internal value chain. The different activities can for example be analyzed by looking at what an activity costs and what value it delivers.

The value chain model can also be used with the VRIN criteria (see chapter 3.4) to analyze the competitive position of an organization (Johnson, 2014).

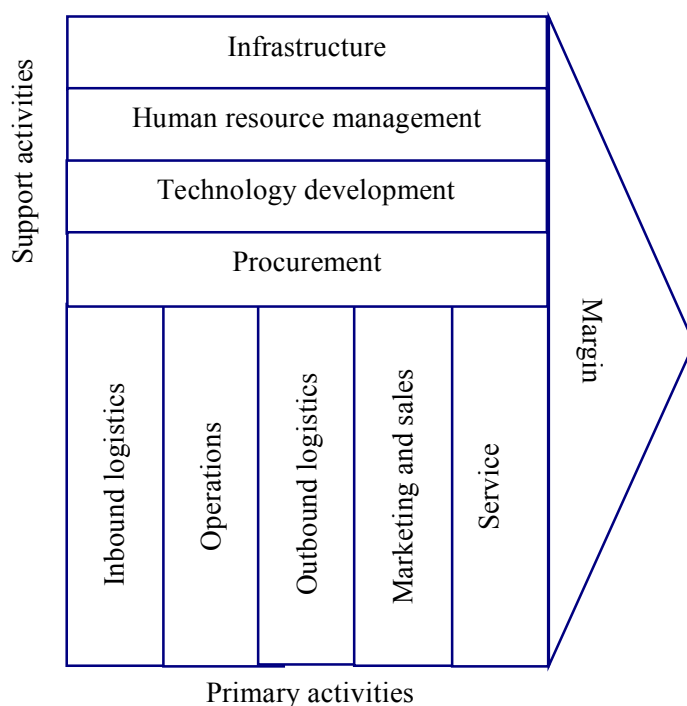


Figure 3 The value chain (Johnson, 2014)

3.3.3.1.1 Primary activities

Primary activities according to porters' value chain are directly linked to the production or delivery of service or a product (Grant, 2010).

Inbound logistics receives, handles and stores inputs for a product or service.

Operations transforms the inputs into the final product or service. Such as machining or assembly.

Outbound logistics stores and distributes the final product to customers.

Marketing and sales Markets the product or service and takes care of the activities needed for the customer to purchase it.

Service provides value adding activities after the purchase such as installation, repairs and spare parts (Grant, 2010).

3.3.3.1.2 Support activities

Every primary activity is linked to support activities. The support activities increases the effectiveness and efficiency of the primary activity (Grant, 2010).

Procurement supports by acquiring the various inputs needed by primary activities.

Technology development helps with issues such as R&D and product design to process development.

Human resource management supports the primary activities by recruiting, training and developing employees.

Infrastructure is the formal systems such as planning, finance, quality control and the structure of the organization (Grant, 2010).

3.4 Resource-based view

Porter's five forces is an outside-in focused analysis on an industry whereas resource-based view has an inside-out perspective centered around an organization. Resource-based view revolves around understanding how a specific company is different from its rivals and through this know how to achieve a competitive advantage.

A strategic capability is an organization's capability that will improve its competitive advantage or long-term survival. This is then divided into strategic resources and competences. A resource is an asset which the company disposes of and a competence is the know-how of how to use an asset effectively (Johnson, Whittington & Scholes, 2012).

Dynamic capabilities are a company's ability to renew and adapt its strategic capabilities to face the needs of a changing environment. This could for an example be organizational structures such as recruitment and management development processes.

Threshold capabilities are those strategic capabilities that are needed to be on the same level as competitors in an industry. Without these capabilities the company will not survive in the long run. Threshold capabilities will not provide a competitive edge by themselves but distinctive capabilities will. Distinctive capabilities are strategic capabilities that will provide a competitive advantage which also needs to be hard for competitors to imitate (Johnson, Whittington & Scholes, 2012).

3.4.1 VRIN

VRIN is a method of assessing a company's capabilities in four key criteria; value, rarity, inimitability and non-substitutability. This tool can give insight when evaluating a corporate strategy's value and competitiveness.

Value

Capabilities are valuable if they can provide competitive advantage in a market at a reasonable cost compared to what it offers.

Does the capability address an opportunity or a threat that the company faces? Is this important for the customer and is it something that the competitors do not offer? Will the costs of developing and implementing it be low enough to maintain sought after levels of profitability (Johnson, Whittington & Scholes, 2012)?

Rarity

Capabilities are rare if they are possessed only by one company or by a few companies. Rarity in itself is not valuable so the capability needs to be of value for the customer. The capability should be sustainable in the long run to provide a bigger benefit (Johnson, Whittington & Scholes, 2012).

Inimitability

Capabilities are considered inimitable if they are difficult for competitors to imitate.

Complex capabilities may be difficult to copy if they have an internal or external linkage with other activities. One example of this could be customer integration with customers which make them more dependent on this particular product or service.

If the capability is ambiguous it's more difficult to imitate. If the cause and effect is hard to understand from the outside it's difficult to copy.

Culture, tacit knowledge and an ability to change with the market is very tough to replicate and will take a significant amount of time to implement (Johnson, Whittington & Scholes, 2012).

Non-substitutability

Capabilities that have a high potential according to the other criteria in VRIN are all evaluated by comparing to direct competitors. This criterion is evaluated by looking into if it can be substituted by any other capabilities. How high is the risk of substitution? (Johnson, Whittington & Scholes, 2012)

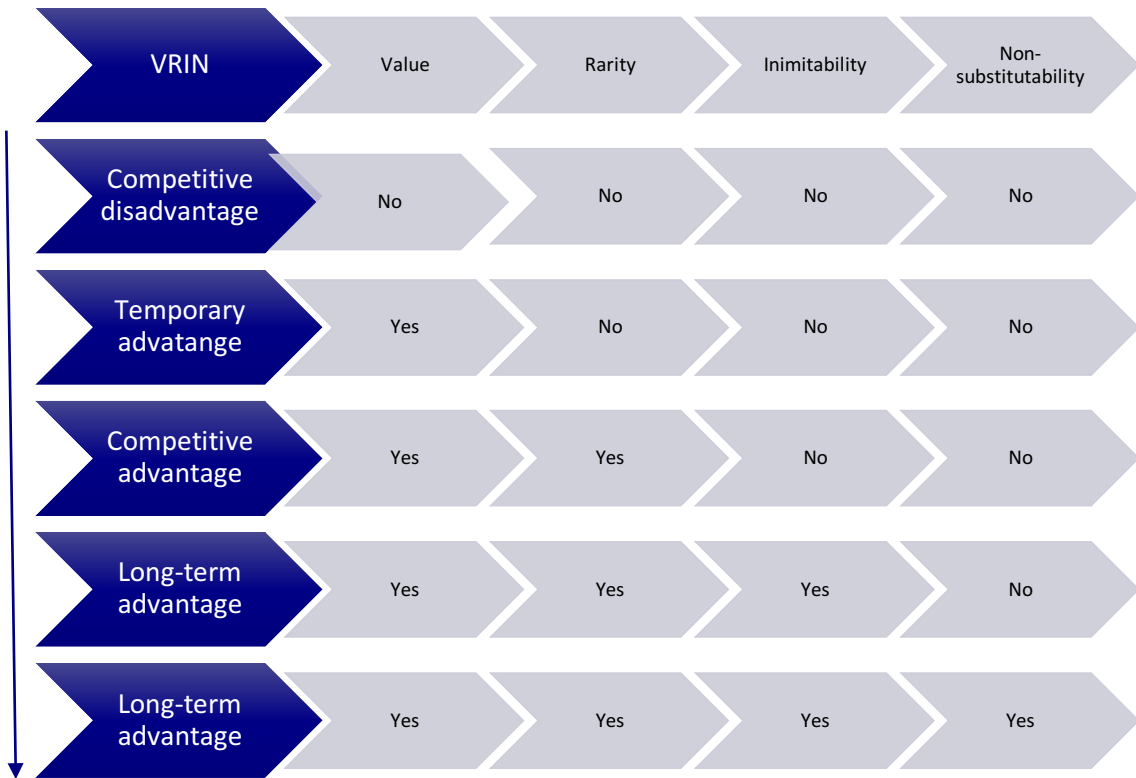


Figure 4 VRIN (Johnson, Whittington & Scholes, 2012)

A strategic capability has a more sustainable competitive advantage the further down the vertical line it is (see figure 4) (Johnson, Whittington & Scholes, 2012).

3.5 Theory summary

The industry analysis is conducted to fulfill the “describing and analyzing the Swedish private equity industry” part of the purpose. Porters five forces will serve as the main framework for the industry analysis. Porters five forces will shed light on important issues for private equity companies. Porters fives forces are potential entrants, buyers, suppliers, substitutes and competitive rivalry.

The following theories relates to the other part of the purpose, to “describe and analyze individual companies’ competitive strategy”.

A company’s Individual strategy will be analyzed within the three different levels of strategy; corporate, business and operational. The theories described under each level are all very generic. Which theories that will have the largest impact depends on what has been identified as main issues in the industry analysis and interesting aspects identified in the case studies.

Resource based framework will be used as an accessory tool during the individual company’s strategy analysis. The VRIN framework will used to value strategic capabilities and the competitiveness of such capabilities.

All the theories should support in creating a deeper understanding of the case studies.

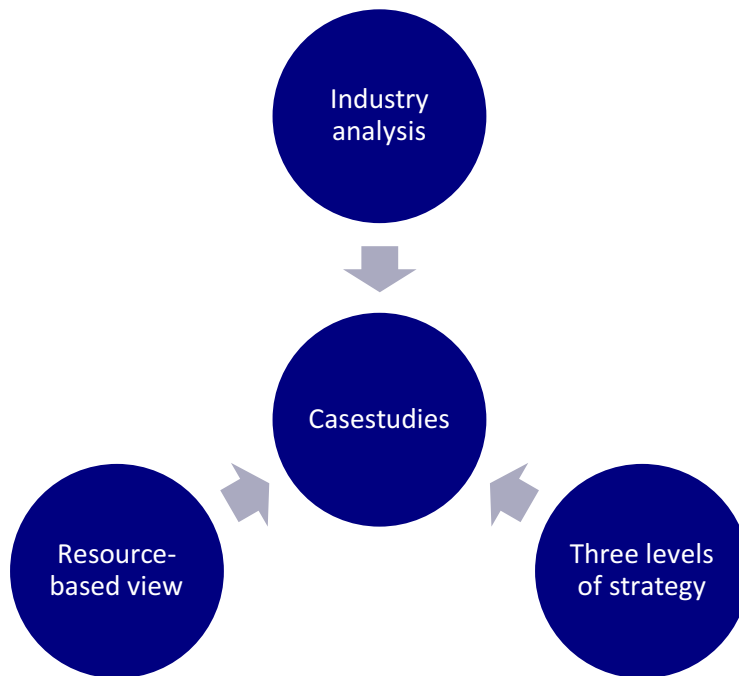


Figure 5 Theory summary

4 The private equity industry – empirical data and analysis

4.1 Introduction

The Five forces framework is the basis of the industry analysis and each force have its own section in this chapter. Each section will lead with empirical data which relates to the specific force of that particular section each section is then followed by analysis of the empirical data. Some data is relevant to more than one power and because of that the data might sometimes be referred to again under a different powers analysis.

Information in certain areas can be scarce and not readily available and in such cases the partial data of the industry represents the whole industry. This leads to potential errors and as a whole this industry analysis relies more heavily on data from private equity funds.

4.2 Power of buyers

Private equity funds have two major products which they sell, one is the fund itself which it sells to investors and the other is when they sell portfolio companies. Private equity companies with internal capital can sell equity or their equity can be traded on a capital market which is similar to when the private equity fund sells a fund. Private equity companies with internal capital also sell portfolio companies much like private equity funds do (Leleux, Swaay & Megally, 2015).

The power of buyer’s chapter is divided into “Investors in private equity” and “Buyers of portfolio companies” to reflect these two groups of products/buyers.

4.2.1 Power of buyers: empirical data

4.2.1.1 Investors in private equity

This chapter is focused on providing an introduction to different types of private equity companies, how they are structured and what an investor is actually buying.

Private equity companies are the middlemen that enables for example institutional investors and individual investors to invest in not publicly traded companies. They make it possible for actors whom for different reasons cannot invest directly in private companies (Tillväxtanalys, 2015).

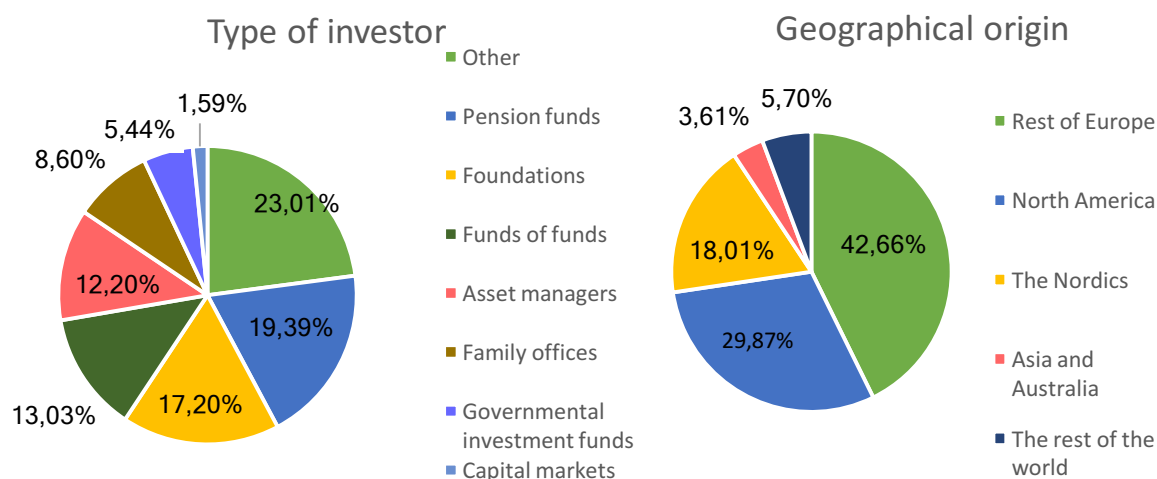


Figure 6 Investors in Swedish private equity funds during 2014. The figure is almost an identical copy of the one SVCA created. SVCA also mentions in the text that the majority of the investments are made by foreign actors. (SVCA b, 2015)

A portfolio company is the name for a company that a private equity company has invested in and a target is a company that a company is considering to invest in. A common approach to differentiate between private equity companies is depending on what type portfolio companies they invest in (Cendrowski, 2012).

One way to split private equity is into three main groups depending on type of portfolio companies.

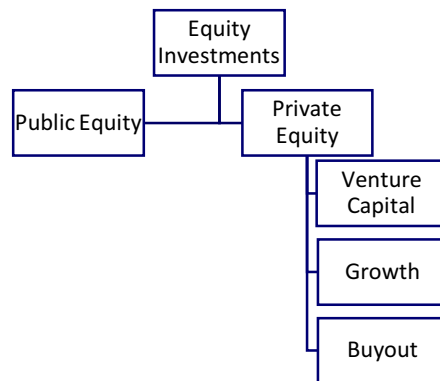


Figure 7 General private equity strategies

Venture Capital companies are focused on providing capital for upstart companies. The portfolio companies are typically young and immature with low cash flow. Venture capital companies typically acquire a minority stake in the company.

Growth Capital companies invests in established companies with a need for new capital. The target companies are more mature than venture capital targets but also have a need for capital to support a growth plan.

The buyout strategy revolves around the private equity company acquiring a majority share of the company. A clear business idea is developed before the purchase by the private equity company. This strategy requires a majority share to provide the voting power to implement the changes (Tillväxtanalys, 2015). The business idea can be very diverse for instance, merging or synergizing with other companies in the portfolio, divestment, aggressive growth approach are all possible strategies. Buyout is the largest group in terms of current assets under management (Leleux, Swaay & Megally, 2015).

4.2.1.1.1 Capital structure of private equity funds

Private equity companies can use different capital structures. A company can invest its own capital or it can invest through a fund that is controlled by the company. Companies that invests its own capital in portfolio companies will be called “private equity with internal capital”. Private equity companies which invests in portfolio companies through a fund will be called “private equity fund”. “private equity companies” will be used when referencing both types of companies in general.

A private equity companies with internal capital can both be private and publicly traded on a stock exchange. Private equity funds can be both publicly or privately owned but the funds they create are controlled by the private equity fund (Leleux, Swaay & Megally, 2015).

The capital that is invested in a private equity fund is locked in during its life time which means that the investor cannot ask for a withdrawal of their part of the fund during its lifetime. The fund typically has a management fee and a possibility for bonus depending on the funds’ performance. The investor and fund manager therefor have an alignment of interest in that they both want the portfolio companies that the fund invest in to appreciate in value (Tillväxtanalys, 2015). The capital invested in the fund is reinvested by the fund managers under a predetermined time horizon and the fund is liquidated when the period has ended. Anywhere between five to twelve years is common time period for a fund (Cendrowski, 2012).

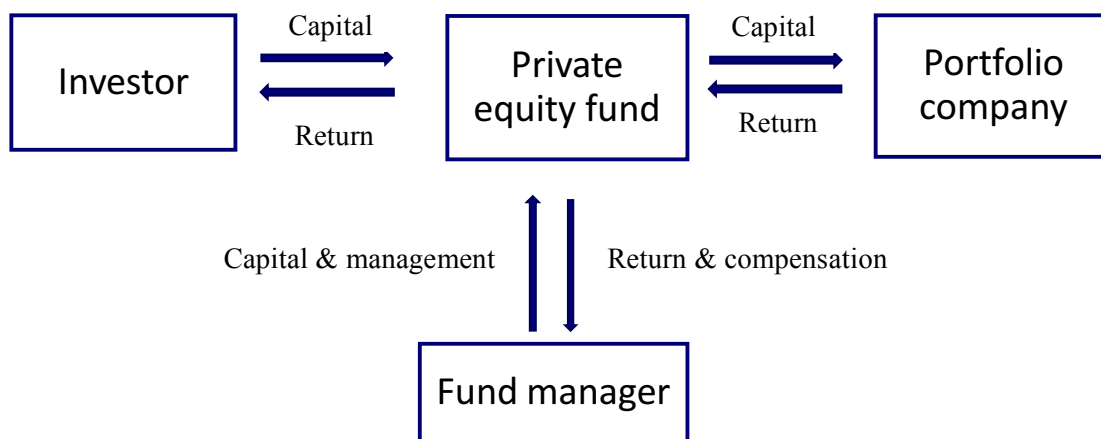


Figure 8 Organizational structure of a private equity fund (Tillväxtanalys, 2015)

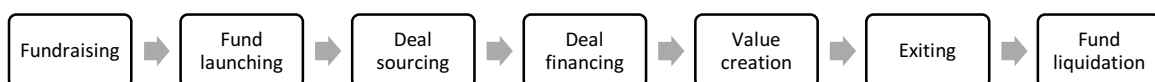


Figure 9 Phases during the life of a private equity fund (Baldi, 2013)

4.2.1.1.2 Capital structure of funds-of-funds

A fund-of-funds is a fund which in turn invests in other private equity funds. The fund pools the money of many investors and for a management fee acts on their behalf as the investor in other private equity funds. This is an option which is very much catered to investors who lack the capital, knowledge or manpower needed to invest in individual private equity funds (Leleux, Swaay & Megally, 2015).

4.2.1.1.3 Capital structure of private equity companies with internal capital

A private equity company with internal capital invests with its own capital and as such becomes a part of their balance sheet. A private equity company with internal capital doesn't require to fundraise before every investment cycle neither does it need to follow a cycle at all. The fundraising is carried out on demand basis. The investors in the private equity company gets its return in form of dividend just like from an ordinary company. These companies can be in varying sizes from small family offices to large publicly traded companies (Leleux, Swaay & Megally, 2015).

4.2.1.2 Buyers of portfolio companies

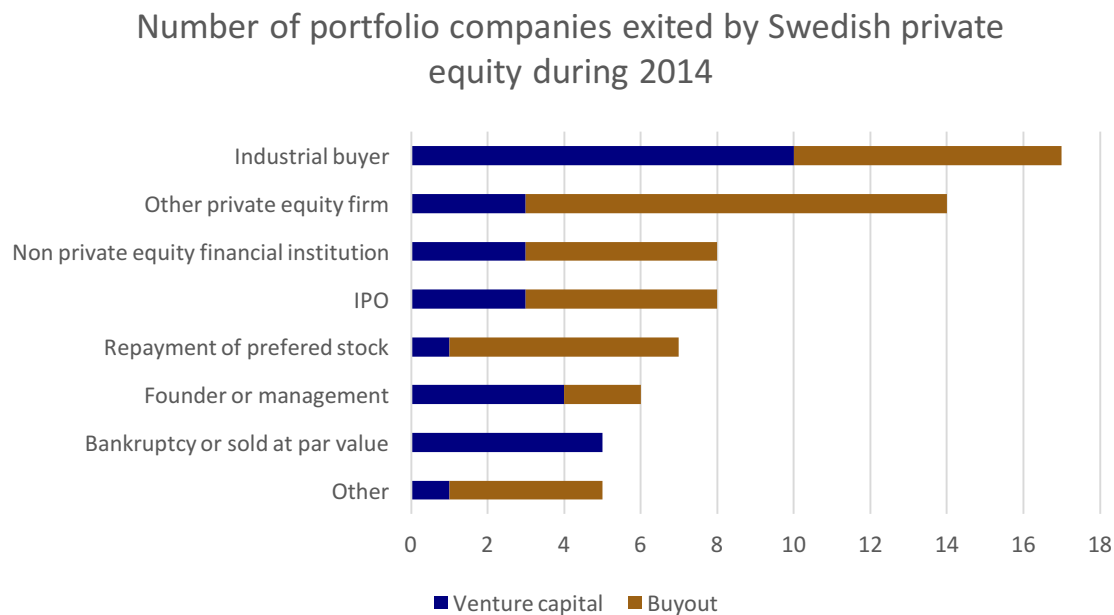


Figure 10 Number of portfolio companies exited (SVCA b, 2015)

The following text explains figure 10 above. The most commonly occurring group of buyers of portfolio companies is other “non-financial investor” companies called industrial buyer. The second and third most common buyer is other private equity companies or another type of financial investor. The fourth most common category is exiting by doing an Initial public offering (IPO). Another category is to an individual or group of people from inside the company. These are typically in the management team or the original founder of the company. SVCA noted that the industrial buyers were lower than the usual during 2014 but otherwise the numbers were similar to an average year (SVCA b, 2015).

4.2.2 Power of buyers: Analysis

4.2.2.1 Investors in private equity

Investors in private equity funds mostly consists of investment professionals, which can be derived from the fact that the majority of investors are pension funds and asset management and similar institutions/companies (see figure 6). This is to be expected as the fundraising process is very specific and it's not as easy as investing in publicly traded stocks or index funds. Most of the investors, in Swedish private equity funds, originate from the Nordics (18%), rest of Europe (43%) and north America (30%) (see figure 6). It's not surprising that USA and Europe are big investors given that they are culturally and geographically closer than some of the less prevalent regions and they also represent a very large portion of the of the global private equity market (Bain & Company, 2016). Many of the buyers originate from outside of Sweden which indicates there is a large pool of investors interested in investing in Swedish private equity companies. A large number of potential investors lowers the power of the buyers.

Investments made in private equity funds is a lot more illiquid than investments made in for example public private equity companies with internal capital. This flexibility might be seen as valuable to some investors and increases the difficulty of switching to another private equity investment. Other differences between private equity investments is their type of investment strategy, minimum investment size and geographical location (chapter 4.2.1.1). This differentiates the products offered to investors and in turn makes the power of buyers lower. There is a lot of different investors but its though to tell their exact motive for investing in Swedish private equity. The performance and diversification aspect of private equity will be discussed further in the “power of substitutes” part of the industry analysis.

4.2.2.2 Buyers of portfolio companies

There are many different types of buyers, Industry buyers, IPO, management/founder or other investment companies means there is a lot for potential buyers (see figure 10). All the different types of buyers are affected by the macro economic climate and studies have shown that the macro economic climate during a funds lifetime effects the performance of the fund. If a private equity company buys companies during a time of low valuations and sells during higher valuations it will have a significant impact on returns. (Leleux, Swaay & Megally, 2015).

A company that has growth by acquisitions as part of their corporate strategy might consider fit more important than price. Private equity companies and other investment companies have acquisitions as a part of their core business and therefore must buy and sell a certain amount of companies to keep operating. This might even out the demand and supply of companies on the market.

The following is speculative and not supported by any specific data but the assumptions and conclusions made are viewed as reasonable by the author. A lot of the buyer’s power are derived from how many buyers there are. Obviously this will change depending on what type of industry the company is operating in and the size of the company and when its sold. If a portfolio company for example have niche which makes it have less buyers interested in buying the portfolio company, then the upside could be that it can be hard for the buyer to find substitutes.

A skilled manger probably thinks of the exit scenario before they purchase a company and will do a good job selling the portfolio company when exiting the investment. This should allow good managers to possibly lower the buyer’s powers.

Buying a company is a huge investment but the price can be less important when acquisitions are a part of a company’s strategic needs.

4.3 Power of suppliers

The biggest purchase a private equity company makes is by far the portfolio companies it acquires and therefore no other type of purchase will be part of this chapter. This will address the process of buying a portfolio company in general terms even though most companies will have some kind of restrictions such as geographical, size or type of company which may have an effect on how they find and purchase their portfolio companies.

4.3.1 Power of suppliers: empirical data

To find targets a private equity company must first search for them, this can either be done internally or through a broker. It's common for private equity companies to both have an internal function which searches for targets as well as using for example investment banks whom represents owners interested in selling their company. After the initial screening further research, negotiation and valuation can commence which may lead to a deal (Cendrowski, 2012). In the book "Why Deals Fail: And How To Rescue Them" a rough estimate is given that there is a 100:1 ratio between number of companies initially screened and number of deals done (Faelten, Driessen & Moeller, 2016).

One of the main sources of buyout transactions in USA is family and private owners whom are looking for new professional help with growing the company and expand internationally. It's also common for these companies to have an ageing owner who needs someone to hand over the reins to. Another main source for buyout transactions in USA are corporations. The parent company sometimes hasn't invested enough or given enough attention to the company to realize its potential. Management might have big plans for the company but have never been given the opportunity to go into action. A divestment could help refocus the corporation.

The last main source of buyout transactions in USA are other private equity companies, sometimes referred to as second-hand, where a portfolio company previously has been owned by one or more private equity company. This is a growing source which stems from supply and demand on the private equity market because private equity owned companies is now a larger part of the market. There is always a questions whether a second-hand purchase can yield the sought after return after it has been owned by another private equity company earlier. Does the company have a future milestone that can be achieved and how effective will the standard private equity value creating methods be? (Leleux, Swaay & Megally, 2015).

Investments made by Swedish private equity funds during 2007-2015

Thousand €	Total amount invested in portfolio companies K€	% of total amount of investments made	Average investment size k€	Total number of portfolio companies	% of total number of portfolio companies
Domestic	13 212 416	66,4%	3942	3 352	86,9%
Other European countries	4 892 289	24,6	13440	364	9,4%
Non-European countries	1 790 752	9,0%	12791	140	3,6%

Figure 11 Investments made by Swedish Private equity funds during 2007-2015 (Invest Europe Research, 2016)

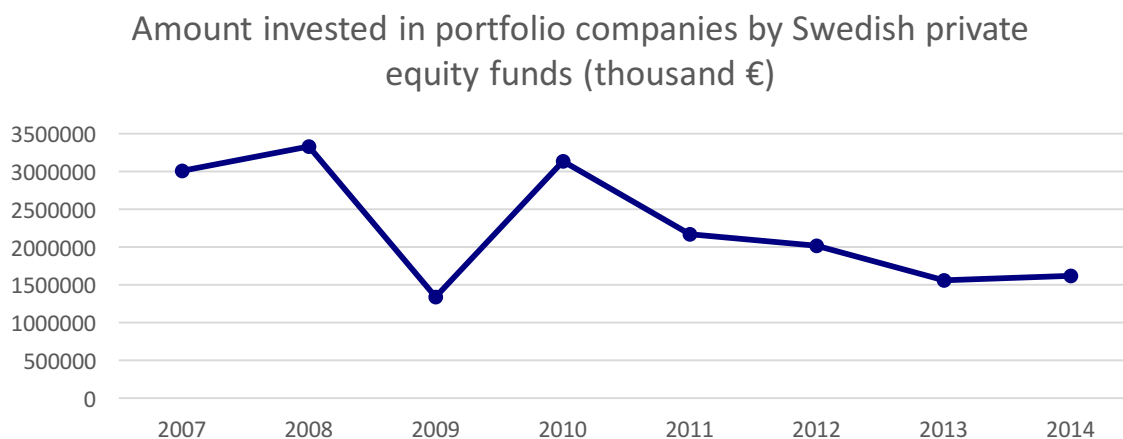


Figure 12 Amount invested in portfolio companies (Invest Europe Research, 2016)

4.3.2 Power of suppliers: analysis

Non-domestic portfolio companies purchase volume represents 33,6% of the total amount invested and 13 % of the number of companies. International companies have an average deal size which is roughly three times as large as domestic (see figure 11). One reason for this might be that it requires more work and costs more to acquire an international company which limits international transactions to larger deals. Another reason could be that the larger funds buys larger companies and they therefore have a smaller pool of domestic targets compared to small funds. Fewer domestic targets forces them to search outside of Sweden to find these large companies.

The same types of sources of portfolio companies that exists on the USA market most likely exist on the Swedish market. This implicates that there are many different types of sources of portfolio companies for Swedish private equity companies. The sources on the USA market is described in chapter 4.3.1. Some of the owners such as private equity funds, ageing owners or distressed business might make their divestments even though they think the valuation is low due to their need to exit the company. This is obviously beneficial for the potential buyer. Other owners might only want to sell when the market/valuations multiples are high and private equity funds with a need to invest their capital have to accept the higher valuations.

The different types of sources probably require different skills and behaviors in regards to sourcing, evaluation and negotiating a deal.

There is clearly a fluctuation in the amount invested by private equity funds from year to year (see figure 12). This indicates that how lucrative the market is can change from one year to the next, notice the interval 2008 to 2010.

Private equity companies have individual niches and varying amount of screening capabilities. Some funds might have an abundance of potential targets when at the same time another fund might be struggling to find targets.

Individual private equity companies can improve their performance by how well they source their portfolio companies but in the end the current market conditions will also have an impact on the result.

4.4 Power of substitutes

What constitutes as a substitute to private equity companies? As discussed earlier the two most important things a private equity company sells are the funds itself and the portfolio companies, which both can be substituted. From an investor viewpoint the substitutes are other investment alternatives. From the viewpoint of buyers of portfolio companies there is the possibility to substitute by purchasing companies from other sources than private equity companies.

The empirical data in chapter 4.4.1 will solely focus on the investment alternatives. Empirical data which relates to purchase of portfolio companies can be found in power of suppliers chapter.

4.4.1 Power of substitutes: empirical data

In USA private equity fund performance in terms of monetary returns are similar to what the stock market brings. Which is somewhat surprising due to the high variance of performance among different funds which indicate a high risk.

The economic cycle has an impact on the performance, in essence funds that launch during downturns are likely to perform better than funds launched during boom years. One reason for this is the increase in the deal price which is generated by the increased competition during the boom years (Leleux, Swaay & Megally, 2015).

Private equity companies offer an investor the opportunity to invest in a group of unlisted companies by investing in one private equity fund or private equity company. This will yield an exposure to a different set of companies than the ones publicly traded. The diversification motive for investing in private equity is often overstated according to the book “Private equity 4.0: reinventing value creation” because historically the assets have a high correlation with the public stock market (Leleux, Swaay & Megally, 2015).

4.4.2 Power of substitutes: analysis

4.4.2.1 *Investment alternatives*

In USA the market return of private equity funds has been very similar to that of publicly traded stocks but with a higher degree of risk (chapter 4.4.1). One reason for this is probably the management and performance fees which reduces the return of the fund to the investor. Sweden has, like USA, a mature capital market and a mature economic landscape. Consequently, it's likely that the Swedish stock market and Swedish private equity investments have a similar relationship as their US counterparts. If so there should be plenty of stocks and funds that can be substitutes to Swedish private equity companies in terms of monetary returns at the same level of risk.

The exposure to unlisted companies is more unique than the performance offered and could be a reason for not substituting the investment.

There is also a problem of illiquidity in the capital invested in a private equity fund and the minimum required amount of capital that is allowed to be invested in the fund. Funds-of-funds bridge, to some extent, the complexity and investment size gap (chapter 4.2.1). Private equity companies with internal capital can be a lot more liquid asset, especially when publicly listed.

Private equity offers the possibility to invest in a certain region e.g. Sweden, the Nordics, Africa. It also offers exposure to certain types of companies i.e. Venture capital. It also presents the opportunity to invest in a certain management team or strategy that a private equity company possesses.

This can all aid an investment professional who needs to create an investment portfolio with demands on exposure to certain markets, regions and or to achieve a certain level of risk.

Assets with similar regional exposure and levels of risks can easily be found listed on Swedish stock markets and therefore offers strong ability to substitute Swedish private equity investments in this regard.

The exposure to unlisted companies and the private equity business model is hard to substitute. It's tough to tell how much emphasis the investors put on the diversification effect but it's safe to assume that most investors consider the diversification of their portfolios and therefore should care about that when investing in private equity.

4.4.2.2 Purchase of portfolio companies

Every other type of corporation can sell part of or the entirety of their business. There is a large number of substitutes in this regard but as long as private equity is competitive in their offering the amount of companies being sold shouldn't be a big issue. One important thing to note is that most private equity companies already have an exit in mind when they purchase a portfolio company and consequently they would not invest in a company that would be difficult to exit.

The biggest impact the substitutes have is probably on price due to the supply and demand for portfolio companies. Private equity companies need to exit their companies and can only sell their portfolio companies for what the market offers them. Private equity companies with internal capital might be able to better maneuver the market compared to funds, which at some date is forced to sell their portfolio companies (chapter 4.2.1).

4.5 Power of potential entrants

The two cornerstones of the private equity business model are: Attracting capital to invest, invest successfully to enable further investments/fundraising. Any barriers of entry related to fundraising and to investing successfully would be very important for the industry dynamic.

This section is divided into “Fundraising” and “investing successfully” to reflect these two cornerstones. There is also a section which addresses the issue of potential entrants with a new business model.

4.5.1 Power of potential entrants: empirical data

4.5.1.1 Fundraising

Fundraising is a challenging phase for private equity funds and it’s even more difficult during an economic downturn. The fundraising stage generally occurs over the first 18 months of a funds life. Investors have a clear preference in reinvesting in new funds that are created by the same fund managers to whom they already have a good relationship with. There is also a strong general preference for investing in private equity funds with a good track record.

There are different tools that a new established fund can use in the pursuit of investors. The easiest approach is to lower management fees and performance fees but some investor may still prefer to invest in an established fund. Another is to have fund managers invest a large part of their own money into the fund to increase their motivation for the funds’ performance (Cendrowski, 2012).

Fund managers typically get paid in three different ways. 1,5-3% of committed capital into the fund in a management fee. 2% is by far the most common management fee in USA. More labor intensive types of investing like venture capital or turnaround focused funds are the ones who needs a bigger fee to cover their costs.

Performance fees/carried interests is payed to the mangers of the fund and its calculated based on return in the end of the funds life. Carried interests are only obtained if a certain “hurdle” rate of return has been achieved. A very common hurdle rate is 8% in USA and the mangers typically get a cut of all the capital gained and not just the part over the hurdle. A common return for the mangers to get is somewhere around 20% of the capital gained. Some well renowned and high performing companies can charge up to 30% of the capital gained in carried interest.

Sometimes investments mangers are required to invest in the fund as well, somewhere around 1% to 5% of the capital raised for the fund. This increases the mangers performance incentives which is beneficial to the investor (Leleux, Swaay & Megally, 2015).

4.5.1.2 Investing successfully

The business model of private equity companies is to create value from acquiring portfolio companies and then sell them for a higher amount. Therefore, it’s important to know the basics of what determines a company’s value and how the private equity industry creates value after the purchase.

Two of the key drivers of a valuation of a company is future earnings and its risk profile. A simple way to use these metrics in a valuation is through the use of a multiple. $Value = EBIT * Multiple$ where EBIT stands for earnings before interest and tax. To obtain a multiple one can either look at past transactions of comparable companies or look at publicly listed companies that are comparable. This is not the only way to value a company but in this thesis it will be used as the generalization of how to value a company. The biggest flaw in the model is when applied to companies such as startups where growth might be a lot more important that current earnings (Leleux, Swaay & Megally, 2015).

According to “Private equity 4.0: reinventing value creation” private equity companies operate in four different ways to create value. Their main objective is to improve the bottom line of the portfolio company.

First, they make the portfolio company more focused by introducing a long term investment approach, a creative asset usage review and sets goals and clear priorities. Strong incentive schemes are introduced for the portfolio company’s management team with performance based bonuses to attract and reward talent.

Second, they change the growth profile for the portfolio company because a higher growth will mostly yield a higher valuation multiple when time comes to sell.

Third, by timing the purchase during a low period in the economic cycle and to sell during a high time can yield to a higher multiple due to the sentiment of the market.

Lastly, bank debt is used as leverage on the equity investment which can yield tax benefits and achieve more with less capital invested by the private equity company (Leleux, Swaay & Megally, 2015).

4.5.1.3 New business models in the private equity sphere

The private equity sphere contains a very broad spectrum of strategies and other business models which mimics the function of a traditional private equity company exist.

Crowdfunding for example is a business model which operates in the same sphere as venture capital companies. A collective of investors cooperates and pool their money together to invest.

Crowdfunding is usually done over the internet on specific websites created for this specific purpose.

Websites often focus on a specific type of crowdfunding and this thesis will only include the aspects which relates to companies seeking investments. Companies that seeks crowdfunding generally follow two different schemes. One scheme is to offer a reward for the people contributing to their company, a common reward is the product which it seeks funding for which the company will deliver in the future.

The other scheme is crowdfunding equity which is the opportunity to buy equity in the company as an investment. (Dresner, 2014)

4.5.2 Power of potential entrants: analysis

4.5.2.1 Investing successfully and fundraising

Market condition effects the performance of the fund (chapter 4.2.2.2) but the fund managers has an influence of when a fund is created and its niche/strategy which impacts its performance. Timing the market and choosing a strategy which works well is probably a difficult task with a high degree of uncertainty. Fund managers decide which targets to buy and this is most likely an area in where mangers work have a large impact on returns. This is one of the reasons why investing in a good track record is appealing, to have managers that has earlier been able to generate excess value out of the market.

Given the four ways that private equity companies generate returns (chapter 4.5.1.2), it’s evident that to invest successfully the private equity managers must possess great knowledge about finance and business management and also know how to apply this knowledge to acquire and transform companies. How can an investor measure the quality of a private equity management team? The easiest and most accurate way would be if the management team already has a track record in the field. The other way is to individually go thought the CV of the management team and try to evaluate their experience. This can be more difficult to do and will bring uncertainty if there isn’t enough experience among the managers in the industry.

When raising capital for a private equity companies its reasonably a lot easier to do so if a company has a good track record. Private equity companies with a bad track record probably has a tough time attracting investor. It might even be easier to start a new enterprise in an effort to try to detach from a bad track record.

There are a few ways to attract investors outside of a good track record e.g. by lowering fees (chapter 4.5.1.1). This will lower the profitability of the private equity fund is probably a last resort in order to raise funds.

4.5.2.2 New business models in the private equity sphere

Business models such as crowdfunding is a threat to the current private equity companies. Crowdfunding is different from the standard private equity model in both the fundraising area and how they invest (chapter 4.5.1.3). The important thing to note is that the private equity business model itself is not immune to replacement. If investor or companies find that there are better options for them they might switch.

One of the strengths of the private equity model is that they can become the majority owner with a singular vision. Would crowdfunding be able to compete with the buyout funds or is crowdfunding more suitable for minority stakes? If so growth or venture capital is more threatened by crowdfunding.

There may exist other up and coming business models that threaten the current status quo in private equity industry that are not brought up in this thesis.

4.6 Power of competitive rivalry

This section is focused on how the competitive landscape of the Swedish private equity industry has changed in recent years.

4.6.1 Power of competitive rivalry: empirical data

The number of private equity funds being launched in Sweden had a steep decline from 2007 to 2008 and has been steadily decreasing since 2008. The total amount of funds raised in Swedish private equity funds varies a lot from year to year but there is no definitive upward or downward trend (Invest Europe Research, 2016).

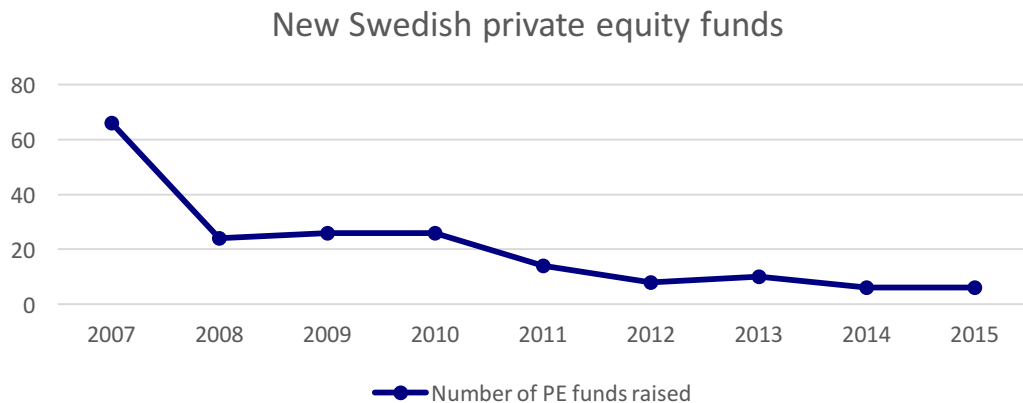


Figure 13 Number of new private equity funds (Invest Europe Research, 2016)

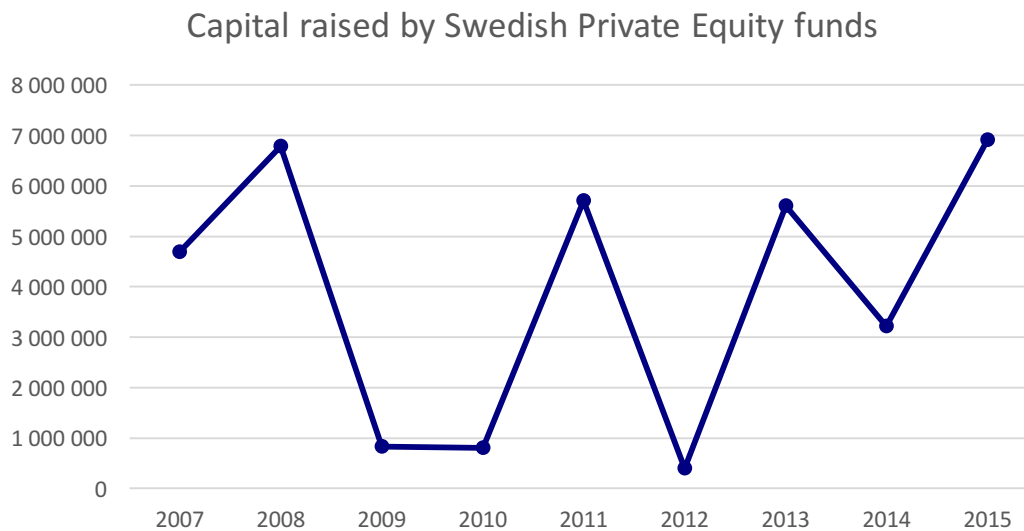


Figure 13 Swedish Private Equity Funds, Total fund raised, Amount in thousand € (Invest Europe Research, 2016)

4.6.2 Power of competitive rivalry: analysis

When looking at private equity funds it is clear that the number of new funds raised has been steadily declining since 2007 (see figure 13). The yearly amount of capital for private equity funds varies a lot from years to year but there is no clear up or downward trend (see figure 14). This means that the average fund size has increased since 2007. Considering the average life time of a fund is around 10 years there is obviously an issue with analyzing a dataset that doesn't even cover a whole fund cycle. In 2007 there was a global surge in private equity funds raised (Leleux, Swaay & Megally, 2015) and it's likely if similar market conditions happen again a new surge will come. Private equity funds performances are affected by market conditions during its lifecycle, this should in turn lead to cyclicity in the amount invested in private equity funds because of investors interests being altered depending on recent historic performance.

The funds that perform well, whether by luck or skill, have a much easier time fundraising than the ones who performed poorly. This can lead to consolidation in the market in which successful private equity funds grows and unsuccessful ones are not able to raise capital for new funds.

All things considered there was probably too many new private equity funds created in 2007 which should have impacted the supply and demand of portfolio companies in the following years. There is most likely an autoregulation in the private equity industry. When there are too many private equity companies, returns suffers and a reduction in investments follows and the opposite is true when there are too few private equity companies.

Maybe an international comparison could be valuable, given that investors invests in funds outside their own country and that private equity funds invest in portfolio companies outside of their own country.

5 Case study 1: Ratos

5.1 Introduction to case study

This chapter will start off with an introduction to Ratos followed by a more expansive presentation about Ratos' history and current operations. This will then serve as the data in the following analysis of Ratos.

Most of this chapter's data is based on easily accessible public data about Ratos. The only exception to this is one interview that was conducted with Daniel Repfennig, a Senior investment manager at Ratos.

5.2 Introduction to Ratos

Ratos is an investment company whom invest in private equity in the Nordics. Ratos is an active owner of 18 portfolio companies. The portfolio companies had 14 500 employees and a turnover of 38 billion SEK during 2016 (Ratos a, 2017).

5.3 Ratos' history

Söderberg & Haak, Sweden's first wholesale company for iron and iron products, was founded in 1866. An investment company was created in 1934 and all of the company's assets was placed in it. The new name of the investment company was Ratos which comes from its founders Ragnar and Torsten Söderberg. Ratos has changed focus throughout the years but it has always been an active owner in Nordic companies (Ratos b, n.d.).

During the 1930s Ratos consisted of a mixture of shares in private companies and shares in public industrial companies. In 1954 one fifth of the shares in Ratos was successfully introduced on the Stockholm Stock Exchange. The Söderberg family still remains in control of Ratos. Ratos remained focused on the steel industry following the IPO but this market underwent a deep recession in the mid 1970s and as a result of this Ratos started selling its shares in steel companies. Despite the downturn in the steel industry Ratos was still financially very strong and paired with its wholesale expertise had many opportunities for new investments (Ratos b, n.d.).

During the 1980s Ratos consisted of a mix of shares in public and privately owned companies in industries such as hotels, restaurants, plumbing wholesale and transportation. By 1991 Ratos was completely out of the steel industry.

From 1995 to 1998 Ratos was transformed into a more focused portfolio with ownership only in public shares. The reason behind only owning public shares was that investors didn't like conglomerates where synergies between portfolio companies underperformed and that companies whom invests in both private and public equity are difficult to value (Ratos b, n.d.) (Ratos c, n.d.).

In 1998 Arne Karlsson became the new CEO, he made it clear before he started that he wanted to use a private equity strategy and otherwise he would not be interested in joining the company. In January of 1999 a new strategy was introduced to become a private equity conglomerate and to invest mainly in unlisted medium sized companies in the Nordics. Ratos sold its shares in public companies and in 2001 purchased an investment company called Atle, Arne Karlssons former employer, and became a pure private equity company. Ratos has to this day remained a pure private equity company (Ratos b, n.d.)(Ratos c, n.d.).

Susanna Campbell, an earlier investment director at Ratos, replaced Arne Karlsson as the new CEO in January 2012 (Ratos d, n.d.). Since Susanna Campbell took over Ratos hasn't perform well and in July 2016 she got replaced. The stock was trading at a price around half of what it was when she took over as CEO. Magnus Agervald took over as the new CEO of Ratos. Magnus Agervald has in the years prior to joining Ratos been a successful CEO of Byggmax (Johansson, n.d.).

5.4 Business model

5.4.1 Investment model

Ratos private equity investment strategy has been successful with an annual internal rate of return of 24% on their exits made. This has reflected itself in Ratos stock performance with a total return of 814% during the years 1999-2015 (Ratos e, n.d.).

Ratos does not have a limited holding period. Ratos intend to keep their holdings as long as the portfolio company increases in value at a rate that exceeds the return target, which typically is five to ten years (Ratos f, n.d.). The company specific minimum annual internal rate of return is around 15-20% (Ratos g, n.d.).

Daniel Repfennig states that every deal needs to be a good standalone investment. It's also more important for the portfolio to not be over exposed to a certain industry rather than to have an even distribution among all the industries. This is also applicable to the vintage of their portfolio companies, Ratos does not wish to make macro bets on when to make investments. Instead they continually acquires companies (Daniel Repfennig, 2017).

According to Daniel Repfennig, private equity companies has in the past been able to create value with quick fixes to their portfolio companies. The opportunities for quick fixes are rarer now which has led private equity companies to increase their holding period to achieve the same results. He speculates that if in the past private equity companies held their portfolio companies for 3-4 years this is has now increased to 4-6 years. Another recent reason for an increased holding period was during the financial crisis where some private equity companies had to prolong their ownership to meet expectations.

Ratos typically holds their portfolio companies for 6-8 years.

Ratos has a more flexible holding time compared to private equity funds. This allows them to make additional investments and or alter their holding period in a portfolio company regardless of how long they have owned it for (Daniel Repfennig, 2017).

Daniel Repfennig states that due to Ratos being a public company their portfolio companies also have certain requirements placed upon them by Ratos. Ratos has requirements for their portfolio companies in areas such as corporate responsibility, environmental issues, transparency and financial reporting. Some of these extra requirements costs money and time short term but it does also create value long term. E.g. the need for detailed quarterly reports can be perceived both as a positive and a negative; it requires resources from the finance department and can potentially promote a shortsighted mentality but it also increases transparency and thereby interest from potential buyers. Ratos does not have any specific company which they cooperate extra closely with (Daniel Repfennig, 2017).

5.4.2 Portfolio development strategy

Ratos goal is to create value by bringing innovation, experience, competence, network and the capital needed to realize the potential of the portfolio companies. Ratos claims to be creating an environment of increased growth and profitability together with the top level management of the portfolio companies. Ratos also claims that many portfolio companies go through a total transformation under their ownership. Their active ownership can help with product development, improve customer offerings, gain access to new markets and add-on acquisitions.

Their model for developing portfolio companies is divided into four categories; Values, Focus on creating value, Corporate governance and Toolbox (Ratos h, n.d.).

Values

Ratos acts on the values of entrepreneurship, commitment and responsibility. Entrepreneurship because they want to encourage curiosity, innovation, change and the ability to seize possibilities. Commitment because they want to work closely with key personnel in the portfolio companies to develop ideas and act in unison with the companies.

Responsibility because they have high standards of business ethics and always takes the environment and social responsibility into account (Ratos h, n.d.).

Focus on creating value

Together with the portfolio company Ratos strive to create increased growth and profitability. When Ratos invests in a company a new strategy and business plan is created, Company goals for development and financial targets is a key part of this. Ratos goal is for their work to have long term and sustainable effects (Ratos h, n.d.).

Corporate governance

Ratos always introduce a clear and transparent structure for corporate governance. A board of directors is appointed with people whom has strategic competences and industry knowledge. The chairman of the board is externally recruited. In addition to the formal corporate governance structure Ratos aim to create close cooperation and a shared agenda between the CEO, chairman of the board and corporate representatives from Ratos (Ratos h, n.d.).

Toolbox

Ratos contributes with competence, experience, network and capital to their portfolio companies. This is achieved through the board of directors, daily contact between key personnel in the portfolio company and representatives from Ratos and through forums hosted by Ratos in which personnel from different portfolio companies meet and exchange experiences.

Inside of the Ratos organization there is knowledge and experience in strategy, business analysis, transactions, finance, accounting, sustainability and branding (Ratos h, n.d.).

According to Daniel Repfennig, the bulk of the work that Ratos does is managing and developing the portfolio companies. The main objective for Ratos during the holding period is to undertake the ownership role and to increase the value creation of the business.

A company is bought with an investment hypothesis and it is essential that this is achieved. The most important tool for realizing the investment hypothesis is to appoint a great board of directors for the portfolio company. The board needs to have the right knowledge, experience and network for the company's current situation. The board of directors consist of representatives from Ratos and their industrial advisors. Since Ratos are generalist and operates in many different industries they need industrial advisors who are experts in certain industries.

Every portfolio company also has a group called a troika which consists of representatives from Ratos, the chairman of the board and the CEO of the portfolio company. The troika meets up in-between board meetings to maintain the tempo of business development and also to work in tandem with the board of directors to enable the board to operate faster and more efficiently (Daniel Repfennig, 2017).

Daniel Repfennig says that Ratos doesn't force their portfolio companies to cooperate with each other but they do encourage their portfolio companies to reap the benefits that comes with being a part of a larger group. This is why there are different initiatives for knowledge sharing among the portfolio companies (Daniel Repfennig, 2017).

5.4.3 Sourcing & acquisitions

Ratos invests mostly in medium sized unlisted companies in the Nordic region. Ratos states that the companies must have a clear development potential and should have an established business model. Ratos have a focus on generating the deals by identifying and analyzing targets themselves but also participate in outside deal generation from other sources. Ratos and the portfolio company will together after the purchase identify and realize the potential of the company. Ratos is typically the largest owner in its portfolio companies but can also be a minority holder with a minimum stake of 20% of the company. The amount invested in one company is in the range of 250m SEK to 5bn SEK. Ratos doesn't invest in early stage companies (Ratos g, n.d.).

Ratos is always searching for target companies to invest in. Targets are sometimes generated directly from owners of companies and entrepreneurs whom searches for a business partner. Other sources of targets are investment banks and Ratos own industrial network. A major part of the targets is also generated inside of Ratos. Ratos annually analyses between 200 to 250 companies and do systematic surveys of industries and regions. They always have a large number of companies which they keep under observation (Ratos h, n.d.).

Only a few of the targets are actually invested in, mostly because of not satisfying the investment criteria, not satisfying the desired return rate or the company might not be for sale at that time. The timing must also be right and the price must also be at an acceptable level.

Ratos also states that it is important to early on in the acquisition process to have clear plan of how to achieve the desired return and what risks and possibilities this will bring. Ratos does not invest in companies which are active in the pornography, weapons or tobacco industry.

Ratos states that there is a lot of competition in the acquisition market. Easy access to capital from banks and investors makes the prices of good companies increase. They also think it's important to establish an optimal capital structure and a company specific debt level which makes it possible for long term growth (Ratos h, n.d.).

According to Daniel Repfennig, some private equity companies will use a deal team for acquisitions & divestment of portfolio companies and a another team for holding/operations & development of portfolio companies. At Ratos it's the same team throughout the whole cycle, from identifying potential targets to acquisition to development to divestment of a portfolio company. One reason for this is that the management team from Ratos can establish a good relationship with the current owners and prospective co-owners before the acquisition. Another reason is that the management team will learn a lot about the company from the due diligence process during an acquisition which will be valuable after the acquisition phase (Daniel Repfennig, 2017).

5.5 Current portfolio

5.5.1 Introduction

According to Ratos 2016 annual report they have 18 portfolio companies with 31 billion SEK in annual revenue, 2,3 billion SEK in operational EBITA which employs 14 500 people. These 18 companies are then internally divided into 8 categories. Retail contributes 34% of the total turnover, construction 25%, Energy 14%, Technology/Media/Telecom 12%, Industry 10%, Healthcare 2%, Business services 2%, Real-estate 1% (Ratos a, 2017).

5.5.2 Retail

Gudrun Sjödén Group

Gudrun Sjödén Group is an international design company. The brand Gudrun Sjödén sells mostly clothes and cloth products for the home. They reach their customers through online sales and their own retail shops. Ratos invested in the company in 2016 and own 30% of the company(Ratos a, 2017)

HL Display

HL Display is an international distributor of products and solution for merchandising and in-store communication. Ratos invested in 2001 and 2010 and owns 99% of the company (Ratos a, 2017).

Jøtul

Jøtul is an international producer of stoves and fireplaces and sells them globally. Ratos invested in Jøtul in 2006 and owns 93% of the company (Ratos a, 2017).

Oase Outdoors

Oase develops and sells camping and outdoor equipment in Europe. Ratos invested in 2016 and owns 79% of the company (Ratos a, 2017).

Plantagen

Plantagen is a Nordic retailer of plants and accessories targeted to consumers. Ratos invested in 2016 and owns 99% of the company (Ratos a, 2017).

5.5.3 Construction

Airteam

Airteam delivers ventilations solutions in Denmark. The company is focused on project management and procurement and offers service after the installation. Ratos invested in 2016 and owns 70% of the company (Ratos a, 2017).

HENT

HENT is a Norwegian building contractor with a focus on constructing new buildings in the public sector or commercial real-estate. Ratos invested in 2013 and owns 73% of the company (Ratos a, 2017).

5.5.4 Energy

Aibel

Aibel is a Norwegian supplier of maintenance and remodeling of oil and gas platforms both on and offshore. Ratos invested in Aibel in 2013 and owns 32% of the company (Ratos a, 2017).

5.5.5 Technology, media and telecom

Bisnode

Bisnode is a European data and analytics provider with subsidiaries in 18 countries. Bisnode helps their customers find new customers and manage their current customers. Ratos invested in Bisnode in 2004 and owns 70% of the company (Ratos a, 2017).

KVD

KVD is a Swedish internet focused company that does vehicle evaluations of used vehicles and also acts as a marketplace for used vehicles and related products online. Ratos invested in 2010 and owns 100% of the company (Ratos a, 2017).

Nebula

Nebula offers cloud based service on the Finnish market. Ratos invested in 2013 and owns 73% of the company (Ratos a, 2017).

5.5.6 Industry

Diab

Diab develops, manufactures and sells material for composite constructions. Ratos invested in Diabin 2001 and 2009 and owns 96% of the company (Ratos a, 2017).

GS-Hydro

GS-Hydro is a global supplier of non-welded pipes systems. Their products are most often used in marine, offshore, paper and metal industries. GS-Hydro has subsidiaries in 15 countries and has its headquarter in Esbo, Finland. Ratos invested in 2001 and owns 100% of the company (Ratos a, 2017).

Ledil

Ledil develops and sells products and solution that uses LED illumination technology. Ratos invested in 2014 and owns 66% of the company (Ratos a, 2017).

5.5.7 Business services

Speed Group

Speed group is a Swedish company that offers logistics, staffing and production services. Ratos invested in 2015 and owns 70% of the company (Ratos a, 2017).

5.5.8 Health care

TFS

TFS conducts clinical studies on humans on behalf of pharmaceutical and biotechnical companies. Ratos invested in 2015 and owns 60% of the company (Ratos a, 2017).

5.5.9 Real-estate

Serena Properties

Serena is a real-estate company that manages commercial properties with large volumes of products sold. Ratos invested in 2016 and owns 56% of the company (Ratos a, 2017).

5.6 Human resources and management

5.6.1 Human resources

Attracting and developing talented employees is very important to Ratos. They state that it is essential in their ability to achieve long-term success. The employees at Ratos typically have a long experience with business development and business strategy. A common background of these employees are as management consultants or from operational roles. They work both with future investments and with managing current portfolio companies. Ratos also have employees with expertise in areas such as communications, branding, sustainability, finance and accounting.

Each portfolio company has a dedicated team that commonly consists of two Ratos employees. One of the employees become the corporate governor and one or more members take place in the portfolio company's board (Ratos a, 2017).

Ratos has currently 16 industrial advisors that advice on the investment process and development process after a purchase. The industrial advisors are often board members of the portfolio companies and a part of Ratos own advisory boards. Ratos has advisory boards in Denmark, Finland, Norway and Sweden that consists of people with long business experience. They contribute knowledge of local business and provide contacts through their respective networks. According to Ratos, the Nordic countries are diverse in regards of corporate structure, industry dynamics and business culture (Ratos a, 2017).

Daniel Repfennig is convinced that the actual people that works at Ratos is their most essential assets along with Ratos structural capital and capital. The most important factor for any company's success is having the right people at the right place, this cannot be overestimated.

Ratos has chosen to have a streamlined organization. Most of their departments, not including their investment and finance departments, only consists of one person. These one man departments can support the portfolio departments by providing direct services or for example by organizing the procurement of service within their field of expertise.

Ratos uses outside consultants when they have a need for additional expertise or to handle an increase of workload during for example an acquisition process (Daniel Repfennig, 2017).

5.6.2 Board of directors

Name: Jonas Wiström

Born: 1960

Role: Chairman since 2016

Education: Master's degree in engineering

Professional background: Board member in Business Sweden, ICC and Tieto. Vice chairman in Teknikföretagen and IVA Business Executives Council

Stake in Ratos: 40 000 B shares and 260 000 options in Ratos
(Ratos a, 2017)

Name: Ulla Litzén

Born: 1956

Role: Board member since 2016

Education: Master's degree in economics and a MBA

Professional background: CEO at W Capital management. Management positions at Investor

Stake in Ratos: 20 000 B shares and 85 000 options in Ratos
(Ratos a, 2017)

Name: Annette Sadolin

Born: 1947

Role: Board member since 2007

Education: Master of Laws

Professional background: CEO at GE Frankona Ruck, CEO at GE Employers Re International. Chairman in Østre Gasværk Teater and board member in Blue Square Re NL, DSB, DSV, Ny Carlsberg Glyptotek

Stake in Ratos: 8 264 B shares and 42 500 options in Ratos
(Ratos a, 2017)

Name: Karsten Slotte

Born: 1953

Role: Board member since 2015

Education: Master's degree in economics

Professional background: CEO at Karl Fazer group, CEO at Cloetta-Fazer. Board member in Onvest, Royal Unibrew and Scandi Standard

Stake in Ratos: 8 600 B shares and 42 500 options
(Ratos a, 2017)

Name: Charlotte Strömberg

Born: 1959

Role: Board member since 2014

Education: Master's degree in economics

Professional background: CEO at Jones Lang LaSalle and a management position at Carnegie Investment Bank and Alfred Berg/ABN AMRO. Chairman in Castellum and board member in Bonnier Holding, Skanska and Rezidor Hotel Group

Stake in Ratos: 11 500 B shares, 280 preference shares and 85 000 options in Ratos
(Ratos a, 2017)

Name: Jan Söderberg
Born: 1956
Role: Board member since 2000
Education: Master's degree in economics
Professional background: Chairman in Söderbergföretagen and board member in Blinkfyrrar, Elisolation, Henjo Plåtteknik, NPG, ProVia, Smelink and Min stora Dag
Stake in Ratos: 14 975 580 A shares, 1 747 800 B shares and 6 600 preference shares in Ratos (Ratos a, 2017)

Name: Per-Olof Söderberg
Born: 1955
Role: Board member since 2000
Education: Master's degree in economics and a MBA
Professional background: Chairman in Söderberg & Partners, Byggdialog, Stockholms Stadsmission and Inkludera Invest
Stake in Ratos: 16 705 964 A shares, 168 000 B shares and 90 preference shares in Ratos (Ratos a, 2017)

5.6.3 Top management

Name: Magnus Agervald
Role: CEO since 2016
Education: Master's degree in economics and a Master's degree in engineering
Professional background: CEO at Byggmax, consultant at McKinsey & Company, investment manager at IDI AB and founder of Icomera.
Stake in Ratos: 10 000 B shares and 100 000 options
(Ratos a, 2017)

Name: Monica Bergvall
Role: Senior Investment Manager, at Ratos since 2014
Education: Master of science in International Management.
Professional background: Sovereign Capital, Duke Street Capital, PWC, SCA, Gambro
Stake in Ratos:
(Ratos i, n.d.)

Name: Patrick Kortman
Role: Senior Investment Manager since 2016
Education: Master's degree in economics
Professional background: Nordea Investment Banking and Anika International
Stake in Ratos:
(Ratos i, n.d.)

Name: Lars Johansson
Role: Investment Director, at Ratos since 2014
Education: Master's degree in economics
Professional background: Swedavia, TV4 Group, Orc Software, TIME Ventures, AssiDomän, SpectraPhysics, BCB Broker Ltd and AGA
Stake in Ratos: 115 000 options
(Ratos i, n.d.)

Name: Robin Molvin
Role: Investment Director, at Ratos since 2006
Education: Master's degree in economics
Professional background: Nordstjernan and Alfred Berg
Stake in Ratos:
(Ratos i, n.d.)

Name: Henrik Lundh
Role: Senior Investment Manager, at Ratos since 2007
Education: Master's degree in economics
Professional background: Keystone Advisers and UBS Warburg.
Stake in Ratos:
(Ratos i, n.d.)

Name: Mikael Norlander
Role: Investment Director, at Ratos since 2008
Education: Master's degree in economics
Professional background: Bain & Co
Stake in Ratos:
(Ratos i, n.d.)

Name: Daniel Repfennig
Role: Senior Investment Manager, at Ratos since 2010
Education: Master of science in engineering and a Bachelor in economics
Professional background: Arthur D. Little
Stake in Ratos:
(Ratos i, n.d.)

Name: Lene Sandvoll Stern
Role: Senior Investment Manager, at Ratos since 2008
Education: Master's degree in economics
Professional background: McKinsey & Company
Stake in Ratos:
(Ratos i, n.d.)

Name: Johan Rydmark
Role: Senior Investment Manager, at Ratos since 2008
Education: Master's degree in economics
Professional background: AAC Capital Partners
Stake in Ratos:
(Ratos i, n.d.)

6 Case study 2: Volati

6.1 Introduction to case study

This chapter will start off with an introduction to Volati followed by a more expansive presentation about Volatis history and current operations. This will then serve as the data in the following analysis of Voalti.

Most of this chapter's data is based on easily accessible public data about Volati. The only exception to this is one interview that was conducted with Voria Fattahi, Volatis investment director.

6.2 Introduction to Volati

Volati is a Swedish industry group that was founded in 2003. Volati acquires well established companies with good cash flows as a long-term investment with no exit plan in mind. Volati is divided into three business areas which are retail, consumer and industry which are divided into 12 business units. Volatis portfolio companies employs 1200 people and had an annual turnover of around 3,2 billion SEK in 2016 (Volati a, n.d.).

Voria Fattahi states that Volati is a Swedish industrial group and given that it has access to permanent capital and has no defined exit time table, is not a private equity company. Volati does however invest in similar types of companies as private equity funds (Voria Fattahi, 2017).

6.3 Volatis history

Volati was founded in 2003 by Karl Perlhagen and Partik Wahlén. The business idea was to acquire companies with a proven business model that has a leading market position and strong cash flows. These companies were to be purchased at a reasonable valuation and after the purchase be developed with long-term value creation in mind (Volati a, n.d.).

Since 2004 Volati has made 23 acquisitions and grown very rapidly. Volati conducted an IPO in the end of 2016 and is now traded on Nasdaq Stockholm. Today Volati is organized in 12 business units which is part of three business segments. The business segments are retail, industry and consumer. Volati has portfolio companies in different countries but the majority of the turnover is derived from Sweden (Volati a, n.d.).

6.4 Business model

6.4.1 Investment model

Growth through acquisitions is the cornerstone of Volatis business model. A platform acquisitions is made when Volati acquires a company that creates its own new business unit within Volati. An add-on acquisition is made when Volati acquires a company that will be incorporated into an already existing business unit (Volati b, n.d.).

Volati has a strong ambition to become the perpetual owner of the companies that it acquires. Volati states that given their strategy to acquire well managed companies with strong cash flows there is no reason for them to sell (Volati b, n.d.).

Volati is meticulous when evaluating an acquisition and their saying is "to risk missing a good deal rather than to risk making a bad deal". This saying is the foundation of their selection process and they also have a few criteria which upon they judge their targets. During a year Volati evaluates more than a hundred targets. Most of the potential targets are ruled out at an early stage and only a few is deeply analyzed by Volati.

Volatis long experience of acquiring companies together with their active board of directors enables them to make quick decisions and the ability to handle complex acquisitions. In Volatis opinion their way of working has enabled them to acquire companies at reasonable valuations, in accordance with their goal (Volati b, n.d.).

According to Voria Fattahi, Volati always acquires a majority share of a company, one reason for this is because it's a necessity when consolidating their portfolio companies.

There is a high amount of competition on today's acquisitions market that leads to high valuations. This makes it more challenging for Volati to acquire companies whom satisfies their criteria of reasonable valuations. Nevertheless, opportunities to acquire companies at a reasonable valuation does still exist on today's market.

Volati has a distinctive owner profile which makes them different from traditional private equity companies. They invest for the long term which is attractive to entrepreneurs whom often cares about what happens to their company after it is sold. Entrepreneurs are concerned for their employees, customers and suppliers. This can make Volati more attractive as a buyer compared to for example private equity funds. This in turn can lead to Volati acquiring a company even though some other buyer was willing to pay a bit more than Volati (Voria Fattahi, 2017).

6.4.2 Portfolio development strategy

According to Volati their decentralized business model allows them to focus on the strategy of their business units. The decentralized business model also helps them in supporting the business units in areas in which they are knowledgeable in. Through their experience as a long-term active owner of companies Volati supports their business units in corporate governance and through continuous dialogue with top management.

Volatis goal is to be the best owner of medium sized companies. The support activities Volati provides to their portfolio companies are divided into four categories which are strategy, talent, knowledge and financial capacity. (Volati c, n.d.)

Voria Fattahi states that in their role as an active investor they have chosen that their portfolio companies have their own board of directors. They have also chosen not to involve themselves in day to day operations for their portfolio companies. This way of corporate governance is similar to how private equity companies manages their portfolio companies (Voria Fattahi, 2017).

Strategy

Before every acquisitions Volati has already created an investment hypothesis, this is then developed into strategic initiatives after a purchase. Volati supports their portfolio companies by creating a strategy and help with the execution of the strategy.

An example of this is when Volati acquired Tornum. Volati acquired Turnum because they had identified an opportunity in Eastern Europe within the agriculture industry. The industry was in need of reformation and also the fact that EU was providing financial support to the industry. Which countries to expand into and an exact plan of the expansion was created after the purchase together with the top level management of Tornum (Volati c, n.d.).

Talent

According to Volati many the companies that is located in more rural areas have challenges with attracting talented employees. The quest of searching and developing good leaders has therefor become more important to Volati. Volati academy is an initiative which employees can improve their capabilities in strategy, leadership and corporate finance. As of 2016 Volati also has a management program in their corporate office for young talented people. The management program consists of further education and work for Volati portfolio companies as well as Volati corporate office. The goal for the participants is to be part of upper management in one of the portfolio companies within three to five years (Volati c, n.d.).

Knowledge

Volati can offer support when any of their portfolio companies are venturing into new areas. This can be in an area such as production, sales, procurement or an international expansion. To ensure the dissipation of this knowledge throughout the corporate office and portfolio companies they have established “Volati Kunskap” which can be translated into Volati Knowledge. Volati Knowledge purpose is to make use of the employees’ knowledge in all areas to improve business processes in the organization. Volati knowledge utilize tools such as workshops, online-education, network of external experts, frameworks and educational databases (Volati c, n.d.).

Financial capacity

Volati can contribute more to their portfolio companies’ financial capabilities than most family owned companies can. An increased financial capability increases the portfolio companies’ ability to invest. Volati allocates capital to their business units to ensure that capital is where it is needed the most. All significant investments made by their portfolio companies are to be approved by Volati corporate. All of this enable the business units to have capital readily available when needed for large investments such as geographical expansions (Volati c, n.d.).

6.4.3 Sourcing & acquisitions

According to Voria Fattahi, Volati has throughout the years made bigger and bigger acquisitions. Today they have the requirement that any new platform acquisition has to have an EBITDA of at least 20MSEK to qualify as a new business unit in Volati. If the company is too small they don’t consider themselves the best owner for the company, they want to make sure that the company gets the resources and attention that it deserves. There is no size limit with add-on acquisition because in those cases they are focused on strategic fit into the already existing business unit (Voria Fattahi, 2017).

Volati’s acquisition process is divided into identification, evaluation, execution and integration.

Identification

Volati continuously receives suggestions of targets from their network of advisors. Some company owners that are looking to sell contacts Volati directly. During a year over a hundred companies are screened and only the companies which fulfill Volati’s acquisition criteria is further analyzed (Volati d, n.d.).

According to Voria Fattahi, Volati has over the years built up a network of advisors in Sweden and in other Nordic countries. Volati’s relationship with these companies results in them knowing who Volati are and what kinds of companies they are looking for. This results in Volati continuously being informed of opportunities in regards to possible acquisitions.

Volati also gets contacted directly by entrepreneurs and business owners which in large is a result of their effort to build Volati’s brand during a long time. One example of their brand building activities is that they have since the start sent out an annual booklet about themselves to hundreds of entrepreneurs and business owners.

Volati also does market analysis and screening to find companies to acquire (Voria Fattahi, 2017).

Evaluation

After the initial screening a further analysis is carried out internally at Volati. The analysis creates a deeper understanding of the company’s customer offering, market, competitive situation and financial history. Volati also creates a hypothesis of how they can add value to the company through their active ownership. (Volati d, n.d.).

Execution

In the end phase of the acquisition a commercial, financial and legal due diligence is carried out on the target. A large portion of this work is done internally (Volati d, n.d.).

Volati traditionally makes most of their due diligence themselves. With bigger acquisitions they are more inclined towards using outside advisors in areas such as legal, financial and tax. The legal due diligence is commonly made by a law firm and the financial and tax due diligence are made with help of from an audit company such as PWC. They tend to do the commercial due diligence themselves even on larger acquisitions.

The main reasons for using consultants is to increase their resources, which is needed on larger acquisitions, and to gain access to expertise. Also, M&A insurance has become a common feature in many transactions, which requires the use of external advisors for due diligence.

Volati doesn't use any specific companies in which to cooperate with but have companies in which they have collaborate with on numerous occasions (Voria Fattahi, 2017).

Integration

After an acquisition has been made Volati creates, together with top management of the acquired company, a strategic and financial plan with clear financial targets. There are continuously follow ups on the implementation of the strategic plan. This is done through formal corporate governance as well as dialogue with top level management at the company (Volati d, n.d.).

6.5 Current portfolio

6.5.1 Introduction

Volati has divided its industry group of three business areas into 12 business units. The business areas are retail, consumer and industry. The companies together have more than 40 subsidiaries spread out over 16 countries but the majority of the turnover originate from Sweden (Volati e, n.d.).

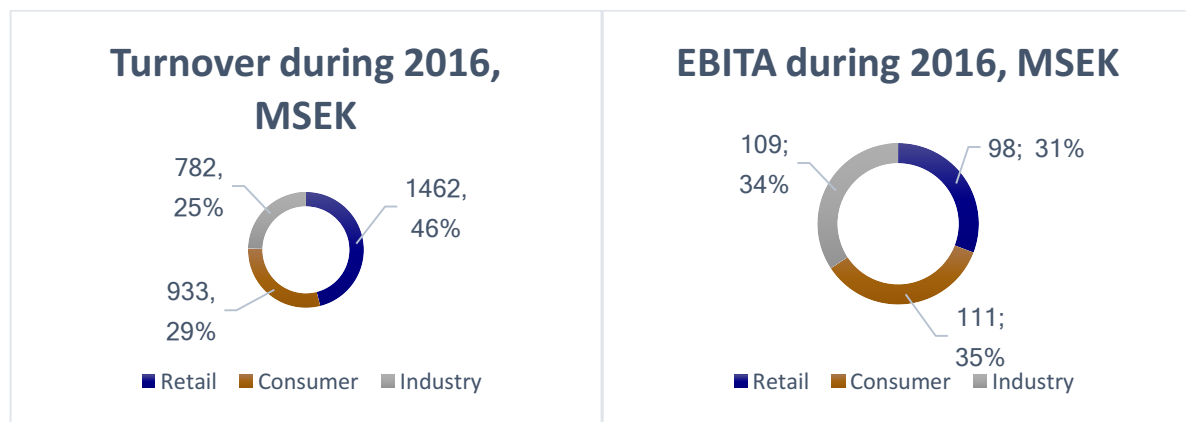


Figure 14 Volatis general portfolio distribution (Volati e, n.d.)

6.5.2 Retail

Volatis retail business area consists of six business units. Its focused on three different market segments; hardware & construction, home & garden and agriculture & forestry. The business units within retail have similar business models and customers. The business units also share some resources and also cooperate in some other areas (Volati f, n.d.).

Three of the business units share a logistical center in Malmö which yields synergies through coordination of deliveries, flexibility in personnel and cost reductions due to larger volumes in procurement.

The majority of the business units shares an IT-system which allows for standardized process and coordination with procurement, support and service.

Finance and other administrative functions are also centrally managed. The shared customer base between the business units allows for cross-selling, cooperation between sales teams and the opportunity to offer integrated customer solution (Volati f, n.d.).

Thomé

Thomé is a wholesaler and distributor of building supplies and tools. Their business focus is to streamline their product flow to their retailers in the Nordic region. Thomé was acquired in 2015 as part of Lomond Industrier and has its main office in Malmö, Sweden and has about 30 employees (Volati f, n.d.).

Habo

Habo makes and develops various small parts in metal such as handles, locks and carbine hooks. Habo was acquired as part of Lomond Industrier and is headquartered in Habo, Sweden and has about 60 employees (Volati f, n.d.).

Kellfri

Kellfri creates and develops machines and tools for small scale farming and forestry with a focus on products with good value for the money. Kellfri was acquired in 2011, has 70 employees and is headquartered in Skara, Sweden (Volati f, n.d.).

Bårebo Nordic

Bårebo Nordic is a supplier of tools and hardware for professional carpenters and for do-it-yourselfers. They supply the products under a couple of their own brands. Bårebo Nordic was earlier a part of Thomé but was detached in order to focus on developing their own brands. Bårebo Nordic was acquired in 2015 as a part of Lomond Industrier, has 15 employees and is headquartered in Malmö, Sweden (Volati f, n.d.).

Sørbo and Industribeslag

Sørbo and Industribeslag are Norwegian suppliers in the door- and windows industry. Both companies operate closely together and shares customers and also customer offerings. Sørbo and Industribeslag was acquired in 2015 as a part of Lomond Industrier and has a total number of 20 employees. Both companies are headquartered in Norway (Volati f, n.d.).

Miljöcenter

Miljöcenter develops and sells environmentally friend products and solutions for the home and garden. Miljöcenter was acquired in 2016 and is headquartered in Malmö, Sweden and has 20 employees (Volati f, n.d.).

6.5.3 Consumer

The consumer area consists of 3 business units with 9 subsidiaries in 5 countries. The business units are focused on B2C within their own niches. The business units are driven by local entrepreneurship in combination with cooperation within select areas such as digitalization and e-retail (Volati g, n.d.).

Besikta Bilprovning

Besikta Bilprovning is a Swedish motor vehicle inspection company. The company was founded in 2012 after the deregulation of the industry in 2010. Besikta Bilprovning was acquired in 2013, is headquartered in Malmö, Sweden and has about 550 employees (Volati g, n.d.).

NaturaMed Pharma

NaturaMed Pharma sells over the counter drugs, supplements and health products in Scandinavia. The products are sold with a subscription model and is sent directly to the customer. NaturaMed Pharma was acquired in 2014, is headquartered in Drammen, Norway and has about 30 employees (Volati g, n.d.).

Me&i

Me&i sell children's and women's clothes through online and home sales. The home sales are arranged by sellers whom arrange home parties. Me&i also does advertising over social media. Me&i was acquired in 2013, is headquartered in Malmö, Sweden and has about 30 employees (Volati g, n.d.).

6.5.4 Industry

The industry area consists of 3 business units with 18 subsidiaries in 14 countries. The business units focus on B2B and are driven by local entrepreneurship but also cooperates in certain areas such as international expansion, lean manufacturing and HR (Volati h, n.d.).

Corroventa

Corroventa develops, manufactures and sells products for treatment of issues such as water damage and radon pollution. Corroventa was acquired in 2007, is headquartered in Bankeryd and employees about 60 people (Volati h, n.d.).

Tornum

Tornum develops and manufactures grain facilities for both agriculture and the grain industry. Tornum was acquired in 2004, is headquartered in Kvänum, Sweden and has about 90 employees (Volati h, n.d.).

Ettikettoprintcom

Ettikettoprintcom is a Swedish supplier of adhesive labels and labeling machines. Ettikettoprintcom was acquired in 2011, is headquartered in Malmö, Sweden and has about 90 employees (Volati h, n.d.).

6.6 Human resources and management

6.6.1 Human resources

For Volati it is important to have employees with the right skills. Recruitment and development of employees is managed by the portfolio companies themselves in all areas except top management and some specialist functions. In these high impact roles Volati will provide central support for recruitment and development of personnel. Volati has a long-term vision of supplying their portfolio companies with talent.

The strategy has three main components which all strive to improve the current knowledge and skills. The strategy purpose is to make Volati and the portfolio companies more attractive as an employer and to secure long-term supply of managerial personnel. This is achieved through Volati Academy, Volati Management Program and Volati Management Meeting (Volati a, n.d.).

Voria Fattahi describes their corporate office as small, competent and efficient. They are flexible but also limited in their resources which means they have to be disciplined as to not waste any resources. Fattahi does not attribute their success to one singular unique competence. Volati is competitive through the combined strength of their organization. These strengths are their skilled team, good financial resources, clear operating model and processes and experience in acquiring companies. Furthermore, advisors likes to work with Volati because they only engage in acquisition processes when they believe they can make it through to the end (Voria Fattahi, 2017).

6.6.2 Board of directors

Name: Karl Perlhagen

Born: 1970

Role: Chairman of the board since 2005

Education: Studied economics at Lund University

Professional background: Founded Volati in 2003 together with Patrik Wahlén and founded Cross Pharma.

Stake in Volati: 34 440 000 common shares and 204 174 preference shares in Volati.

(Volati a, n.d.)

Name: Patrik Wahlén

Born: 1969

Role: Board member since 2006

Education: Studied economics at Lund University

Professional background: Founded Volati in 2003 together with Karl Perlhagen and worked at Kemira and EY.

Stake in Volati: 19 391 782 common shares and 10 129 preference shares in Volati

(Volati a, n.d.)

Name: Björn Garat

Born: 1975

Role: Board member since 2015

Education: International economics program at Linköping University.

Professional background: Corporate Finance at Remium Nordic AB and finance director and executive vice president at AB Sagax.

Stake in Volati: 1 820 preference shares in Volati

(Volati a, n.d.)

Name: Christina Tillman

Born: 1968

Role: Board member since 2016

Education: Economics at Stockholm University

Professional background: CEO at Odd Molly, CEO at Gudrun Sjödén Design and executive vice president at AB Sagax

Stake in Volati: 6 000 common shares in Volati

(Volati a, n.d.)

Name: Louise Nicolin

Born: 1973

Role: Board member since 2016

Education: Master's degree in engineering at Uppsala University and a MBA at Stockholm School of Business

Professional background: Owner of Nicolin Consulting AB and worked at PlantVision AB

Stake in Volati: 1000 common shares in Volati

(Volati a, n.d.)

6.6.3 Top management

Name: Mårten Andersson

Born: 1971

Role: CEO since 2014

Education: Economics at Lund University and the General Manager Program at Harvard Business School

Professional background: CEO and other previous international positions at Skandia

Stake in Volati: 2 511 532 common shares and 1 887 preference shares in Volati
(Volati a, n.d.)

Name: Mattias Björk

Born: 1975

Role: CFO since 2009

Education: Master of laws and master's degree in economics

Professional background: Modern Times Group MTG AB, Investment AB Kinnevik and Invik & Co AB.

Stake in Volati: 2 166 705 common shares and 1 887 preference shares in Volati
(Volati a, n.d.)

Name: Pär Warnström

Born: 1980

Role: Director of business development since 2013

Education: Master's degree in economics and studies at KTH

Professional background: General Electric and Occam Associates

Stake in Volati: 50 000 options in Volati
(Volati a, n.d.)

Name: Voria Fattahi

Born: 1982

Role: Director of investments since 2015

Education: Master's degree in economics and a MBA

Professional background: Investment AB Kinnevik, Apax Partners and JP Morgan.

Stake in Volati: 140 preference shares and 834 914 options in Volati
(Volati a, n.d.)

Name: Mårten Sundberg

Born: 1958

Role: Business area director, Retail since 2016

Education: Economics at Lund University.

Professional background: CEO at Lomond Industrier and previous international positions in SOMFY

Stake in Volati: 50 000 options
(Volati a, n.d.)

Name: Nicklas Margård

Born: 1969

Role: Business area director, consumer since 2016.

Education: Economics Lund university, MBA at Concordia University Montreal

Professional background: CEO at Besikta Bilprovning and CEO at John Bean Technologies AB

Stake in Volati: 115 500 common shares and 200 000 options Volati
(Volati a, n.d.)

7 Analysis Ratos

7.1 Introduction

Ratos will be analyzed with the three levels of strategy and resource based view framework. The data is provided in the previous section in the Ratos case study.

7.2 Corporate strategy

7.2.1 Introduction

Ratos has made many changes to their corporate strategy throughout their long history. Their most recent big change was in 1999 to only invest in private equity. Ratos has limited themselves to invest in companies with a headquarter in the Nordics, of a certain size and regardless of industry.

7.2.2 Diversification

Ratos has made a clear choice to only focus on private equity with companies headquartered in the Nordics. No other type of investing or other kind of business is conducted by Ratos. Since it's a prerequisite to only invest in private equity to be part of this thesis its more interesting to analyze their portfolio in terms of diversification.

Ratos have 18 portfolio companies in 8 different categories, this might look like a diversified group of companies but it's not equally weighted. The 3 smallest categories only stand for a combined amount of 5% of the total turnover whereas the two biggest categories stand for a combined amount of 59% of the total turnover. There is a large amount of diversity within the biggest category which contains companies that sells stoves, clothes, plants and more.

According to investment manager Daniel Ripening it's not very important to have an even distribution in your portfolio but instead its more important to not be overexposed to a certain industry. By that standard Ratos portfolio seems to be in good order since their portfolio companies operate within many different industries even within the same category.

Ratos should be able to invest in many different types of industries in the future since Ratos uses industrial advisors for expertise and doesn't strive for integrating their companies together to create synergies. As long as they can find a company that meets their "good standalone investment" criteria and they have the required expertise in-house or externally to manage it properly there should be no roadblocks for them to become a more focused or more diverse portfolio in the future.

7.2.3 Integration/outsourcing and vertical integration

Ratos has a streamlined organization but at the same time has expertise in a variety of areas. The two biggest part of their roster is their investment department and their finance department. These are obviously essential when investing and managing portfolio companies but also requires a certain amount of manpower when dealing with many portfolio companies at the same time.

Other departments may only consist of one employee, this lends itself useful as they can carry out specialized tasks and provide a great help when procuring service within their area of expertise.

According to Daniel Repfenning, Ratos utilizes external consultants less than their competitors. They mainly use consultants to deal with excess workload but also to gain access to expertise in areas where they might not have a lot. This approach obviously lowers their fixed costs while being able to have the man-hours or expertise called upon when needed.

7.2.4 Organic development, alliances, mergers and acquisitions

Throughout the ages Ratos has grown by organic development and acquisitions and has also made tactical divestments. The need for acquisitions and divestments comes from the multiple big adjustments to their business model.

Their latest big change was when they decided to switch to private equity. To achieve this, they sold of their public shares and then acquired Atle, an investment company, to help them establish their new business. This ability and heritage of M&A activity might provide a benefit in the future if any major changes are warranted.

Ratos has made multiple acquisitions and divestments of portfolio companies. The knowledge and experience can be beneficial when doing the same thing in the future. This could also lead to biases, which might favor deals that looks like previous successful deals but with a different outcome in the end. It's therefor important for Ratos to analyze their previous M&A activity and to analyze the outcome and to disperse the knowledge inside of their organization. Ratos structural capital is very important for them; how to find, buy and sell portfolio companies is certainly a part of that.

7.2.5 Corporate parenting

Ratos most closely resembles a portfolio manager and not a synergy manger or a parental developer. They look for suitable companies to develop independently from each other, this means they are not a synergy manager. If Ratos creates any interdependencies between the portfolio companies, it would create issues of separating them or the need for bundling when they are looking to sell. This approach limits synergy benefits that could have been created and keeps the portfolio companies autonomous. They do however encourage knowledge sharing between their portfolio companies. This does not create interdependencies but can still provide value. They also provide new management, goals and strategies for their portfolio companies. Only providing top level management help is typical for the portfolio manager.

7.3 Business strategy

7.3.1 Porters generic competitive strategies

Overall cost leadership must entail a strong focus on cost cutting compared to their competitors. Ratos has a streamlined organization which points toward being conscious of their corporate office costs but this is probably common among other private equity companies too. This reasonable to assume because private equity funds employees are highly incentivized to improve their funds' performance. A small corporate office is an easy way to cut costs and at the same time focus their carry and management fees to fewer employees.

Another big expense of a private equity company is any debt used as leverage when acquiring portfolio companies. As debt is highly commodified their costs/interest rate is more likely a result of their debt ratio and the level of risk in their portfolio. Any other private equity company with similar debt ratio and risk of their portfolio is likely to be offered a similar interest rate.

According to Daniel Repfennig they utilize consultants less than their competitors, this could potentially lower their costs but there is no further evidence to support if it's true and if this leads to lower costs. Given this and the fact that Ratos never disclose any effort in being a low cost competitor it is difficult to argue that they focus more on cost cutting than their competitors.

Their company, from the viewpoint of an investor. is definitely differentiated in being a public private equity company in Sweden. This makes them able to provide a unique offering compared to the other publicly listed companies and also compared to other nonpublic private equity companies. Being publicly listed brings liquidity and transparency which can be very valuable to an investor. Being a company that only invest in private equity can also be attractive to an investor.

Ratos, like every other private equity company, holds a unique portfolio of companies and a unique management team. This can easily differentiate Ratos from other private equity companies from the outlook of an investor.

Ratos is far from alone in being a private equity company operating in Sweden. They are not focused on any special industry or niche of companies therefor they cannot be considered as having a unique focus compared to their competition.

7.3.2 Interactive strategy

In the data there was no mention of an interactive strategy but there are some areas where an interactive strategy may very well be used.

Ratos says there is a lot of competition in the market when acquiring companies. Since they don't have a specific industry focus they can try to have an interactive strategy when sourcing and acquiring companies to achieve better deals. E.g. if an industry is less popular among its competitors it can lead to lower valuations and better deals. Ratos can also try to find companies and engage in bilateral negotiations before their competition and in turn have the possibility of a lower valuations. Both of these strategies requires them to be aware of what their competitors are doing to lower competition when acquiring companies.

7.3.3 Cooperative strategy

Ratos doesn't cooperate closely with any other companies outside of their portfolio companies.

7.4 Operational strategy

7.4.1 The value chain

It's clear that Ratos, as to be expected, is highly specialized investment company. As a private equity company their main objective is to find, buy, manage and sell portfolio companies. Their finance and investment/management departments can be considered their core and every other department exists to support their work. Ratos does not fit in particularly well within the value chain model because many of the departments being nonexistent within Ratos organization. If Ratos were a parental developer they might have a more complex organization with procurement, marketing and sales and technology departments existing within their organization to support their portfolio companies.

7.5 Resource-based view

7.5.1 Introduction

Since Daniel Repfennig considered Ratos employees, structural capital and capital their most valuable assets they will be analyzed in this section.

7.5.2 Human resources

Human resources will be used to reference the employees themselves but also include the know-how and structures in place to attract and utilize them.

Ratos' employees are one of the most important strategic resource they have. Making just a tiny bit better investment decisions or managing their companies a bit better will make an impact on the bottom-line. Therefore it's important for them to attract the best talent. When looking at their employees resumes its evident that all of them have a university degree or equivalent and suitable professional backgrounds for this type of work. There are various strategic competences related to this such as how to attract, develop and make best use of talented employees. Their various structures inside of Ratos such as how they govern over portfolio companies and their industrial advisors network shows that they try to organize themselves effectively to make the best use of their employees.

Human resources is very much a threshold capability, if their employees are not skilled enough to make decent investment and management decisions they won't survive.

The VRIN framework can help to find out the competitiveness of this capability. It's clear that human resources are **valuable** to Ratos. Its though to tell how **rare** these capabilities and competences are compared to other competitors. And if it's rare, how sustainable is the competitive edge? It is certainly possible for their competitors to **imitate** these competences and capabilities.

These capabilities and competences can be seen as somewhere in between temporary advantage/competitive advantage according to the model. Certainly beneficial, but are they better than their competitors and is it a sustainable advantage?

7.5.3 Structural capital

Ratos has changed their business model multiple times through the years. This can be seen as a dynamic capability to renew and adapt their strategic capabilities and competences. This can be a **valuable** asset in the future. It's probably quite **rare** for companies to successfully transform its business model multiple times. It's hard to **imitate** the ability to be able to restructure and rebuild a company. Most companies and people likely take their core business model as the foundation of the company and is therefore nonnegotiable to them. This capability cannot be **substituted** by anything else. According to the model this can be seen as a long-term advantage. The only question is if they will be able to repeat this feat, if and when it is needed.

The rest of Ratos structural capital is also **valuable**. They have for many years been active in the private equity sector which have allowed them to fine tune their organization towards this end. It's tough to tell how much better or worse Ratos structural capital is compared to their competitors. Ratos structural capital is at least unique to their organization and cover many different areas which can therefore be considered as **rare** and difficult to **imitate**. It can be considered **substitutable** in that sense that a competitor can develop their own structural capital which will be different but serve the same purpose. This can be considered a long-term advantage according to the VRIN model.

7.5.4 Capital

Ratos has access to capital but so does every other competitor. This is a threshold capability to even invest in portfolio companies. The only way this can be seen as **valuable** is if they have access to more capital than their competitors, which is not known. If they possess more capital than their average competitors its likely some competitors also have similar amounts and therefor is not **rare**. This strategic capability can at best be seen as a temporary advantage according to the model.

8 Analysis Volati

8.1 Introduction

Volati will be analyzed with the three levels of strategy and resource based view framework. The data is provided in the previous section in the Volati case study.

8.2 Corporate strategy

8.2.1 Introduction

Volati has never made any major changes to their corporate strategy since their inception in 2003. Volati does not follow the standard private equity model as they do not intend to sell of their portfolio companies but instead own them in perpetuity. Despite this, Volati still does compete with other private equity in terms of wanting to acquire the same companies.

8.2.2 Diversification

Volati has made a clear choice to only focus on private equity with companies headquartered in the Nordics, mainly in Sweden. No other type of investing or other kind of business is conducted by Volati. Since it's a prerequisite to only invest in private equity to be part of this thesis its more interesting to analyze their portfolio in terms of diversification.

Volati is focused on acquiring companies with the intent to own them in perpetuity. These are divided into three categories, industry, retail and consumer. The retail sector represents 43% of the total turnover, consumer 29% and industry 29%. They obviously have a clear preference for Swedish companies but have portfolio companies operating in many industries. To have companies operating in the same country and of similar structure probably makes it much easier to create synergies and to consolidate their portfolio companies. Therefore its feasible that they do not care much for how diversified their portfolio is but instead about synergies and strategic fit among its portfolio companies.

8.2.3 Integration/outsourcing and vertical integration

Volati has remained as a small corporate office and to outsource e.g. some of the due diligence work when needed. The reason for using outside consultants is to increase their resources when needed for a large acquisition or to gain access to outside expertise.

Their efforts to make entrepreneurs and business owners contact Volati directly can be seen as a vertical integration. Instead of having the entrepreneur and business owner contact/hire an advisor they can contact Volati instead. This might lower outside competition for the deal and lower/remove fees to advisors.

Volati has made efforts to create synergies among their portfolio companies by shared service such as logistical services, IT-systems and administration. This can lower the cost of the portfolio companies compared to them individually outsourcing this to external companies.

8.2.4 Organic development, alliances, merger and acquisitions

Volati has a clear intention to grow with the help of acquiring companies. They now have a lot of experience in acquiring companies and have been successful at it.

Volatis acquisitions grows larger and larger which makes sense given their business model. To keep growing through acquisitions they either need to be more of them or larger in size to make the same impact to their portfolio. Increasing the number of acquisitions probably requires a larger corporate office and increases their organizations complexity. Volati favoring bigger acquisitions instead of more of them is supported by them having a minimum size limit on platform acquisitions.

There is a limit to how many add-on acquisitions Volati can make per year as the business units need to properly integrate and create synergies with the new acquisition, which takes time. On the other hand, every new platform acquisition will open up opportunities for future add-on acquisitions. The more markets and industries their portfolio companies operate in the more knowledge and experience in these areas Volati needs to have in order to properly acquire and manage them. This might lead to them having to expand their office in order to meet future demands.

Volati actively congregates their portfolio companies with each other to achieve synergies which in return could provide increased opportunities for organic growth. Firstly, by economies of scale and shared resource they can lower costs which can make the companies more profitable even when they have large growth related expenditures. Secondly, if a few companies share for example logistical centers could enable the companies to focus more closely on running their individual core businesses instead of managing support functions.

8.2.5 Corporate parenting

According to Voria Fattahi, Volati's active ownership style resembles the one that risk capital companies use e.g. private equity funds. They do not involve themselves in day to day operations and let the portfolio companies have their own board of directors.

There is clear evidence of Volati being a synergy manager. Since they intend to be long term holder of companies there isn't much of a reason to not integrate the companies if there are opportunities for synergy. This is something that would be more difficult to do for a private equity fund because of need to sell companies as a bundle or separate them if they are integrated with each other,

If Volati keeps growing this will put increased demands on their corporate office since they provide support functions to their portfolio companies. If they wish to remain a small office they could perhaps limit themselves to become more of a passive portfolio manager. This would however be slightly contradictory with their motto of being the best owner of medium sized companies. Instead there is the opportunity that they might develop into becoming more of a parental developer and provide more support for their portfolio companies and create unifying brands.

8.3 Business strategy

8.3.1 Porter's generic competitive strategies

Volati have rather low costs with their small corporate office and focus on acquiring companies at reasonable valuations. They also have made the choice to try to source deals in many different means which are also in part to reduce their acquisition costs. Since both having a small office and trying to make good deals will improve for example a private equity company's performance it's probably not uncommon to have these ideals to a varying degree inside of the industry.

Volati certainly strives to be a differentiated owner with their quest for perpetual ownership of their portfolio companies. This sets them apart from many other companies investing in private equity in the eyes of business owners and entrepreneurs when selling their companies. Just like the theory states this can lead to reduced price sensitivity.

Their focus on creating synergies and long-term ownership may lead to them looking for different types of companies and also valuing business in a different way than their short-term focused competitors. This might make it easier for them to make good deals due to lesser competition. Their focus on synergies between companies might have less risks associated with it than hoping to transform the companies and get a better valuation a few years down the line.

8.3.2 Interactive strategy

Volati is of the opinion that current market conditions result in high valuations of companies. Since they don't have a specific industry focus they can try to have an interactive strategy when sourcing and acquiring companies to achieve better deals. E.g if an industry is less popular among its competitors it can lead to lower valuations and better deals. This is certainly a possibility with their platform acquisitions and to some extent they can also choose if or when a business unit gets an add-on acquisition. Volati also promotes bilateral negotiations between them and one seller and in turn have the possibility of a lower valuations. Both of these strategies requires them to be aware of what their competitors are doing to lower the competition when acquiring companies.

8.3.3 Cooperative strategy

Volati does not collaborate with any other investment company. There are companies which they have chosen to work with on numerous occasions e.g. supplier of professional service and their network of advisors. This has enables them to establish relationships which can help with sourcing of companies and being efficient when outsourcing work.

8.4 Operational strategy

8.4.1 The value chain

Volati has a small corporate office which must support and manage their current portfolio and acquire new companies. According to Voria Fattahi, their smaller acquisitions doesn't require much outside resources but their due diligence for larger transactions needs support in the areas of legal, tax and finance. Even on the larger transactions they do the commercial due diligence themselves. Maybe this is because commercial due diligence is very important when evaluating strategic fit and synergy potential. If this is true it's not surprising that they want to have the resources to conduct this themselves even on the biggest transactions.

8.5 Resource-based view

8.5.1 Introduction

In the interview with Voria Fattahi he stated that he didn't believe they had any one thing that made them successful but instead chose to attribute it to their skilled team, good financial resources, clear operating model and processes, experience in acquiring companies. He also mentioned that advisors liked to work with them and their reputation has also been brought up as a topic earlier in the analysis of Volati.

To represent this the following categories has been chosen in this section; Human resources, Structural capital, capital and reputation & values.

8.5.2 Human resources

Human resources will be used to reference the employees themselves but also include the know-how and structures in place to attract and utilize them. Volatis employees are the key to making good acquisitions and managing them properly afterwards. Many of Volatis employees have an academic degree in economics and professional background in finance and investing. These types of backgrounds are good fit for acquiring and managing companies. Most of them hold a significant amount of stocks or options which can be tools for retaining and motivating talent.

Human resources is very much a threshold capability, making too many bad deals or poor management of their portfolio companies is not sustainable when investing in private equity.

The VRIN framework will now be used to analyse the competitiveness of this strategic resource and capability. The **value** of having the right people is evident. It's not known how **rare** this capability is compared to their competitor. It is definitely possible for competitors to **imitate** their structure and type of employees. According to the model these capabilities and resources can be seen as somewhere in-between temporary advantage and competitive advantage.

8.5.3 Structural capital

Volati has continued with their business model since 2003. During these years they have made lots of acquisitions and transformed/merged portfolio companies. The knowledge and experienced gained from these activities throughout the years have allowed them to create efficient processes and improved their operating model. Voria Fattahi mentioned how important it is for them to stay disciplined and effective in their work due to their limited amount of manpower.

When analyzing through the VRIN framework it's clear that structural capital is **valuable**. It can be seen as **rare** because Volati has its own unique structural capital which will differ from their competitors. It's difficult to copy this kind of tacit knowledge from outside of an organization which, this capability can therefore be seen as difficult to **imitate**. The capability can be seen as **substitutable**, as its possible for competitors that is different but that also creates value for their organization. This capability can give Volati a long-term advantage.

8.5.4 Capital

Volati has access to capital but so does every other competitor. This is a threshold capability to even invest in portfolio companies. According to the, VRIN framework, the only way this can be seen as **valuable** is if they have access to more capital than their competitors, which is not known. If they possess more capital than their average competitors it's likely that some competitors also have similar amounts and therefor is not **rare**. This strategic capability can at best be seen as a temporary advantage according to the model.

8.5.5 Reputation & values

Volatis reputation helps them with sourcing deals and also with potentially acquiring companies at a lower valuation. They have since the start purposely carried out activities to promote their brand and values. When analyzing this strategic capability through the VRIN framework its evident that this can be seen as **valuable** by lowering costs and getting unique deals. Their reputation is unique to them and while some other competitors might have a similar profile its **rare** enough for them to reap the benefits. It's certainly possible to **imitate** their profile/reputation in the long run but it takes time to become as credible and have a similar track record as them. It's possible for a competitor to **substitute** their values with a similar value that can yield benefits in the long run. This can be considered as somewhere in-between competitive advantage and long-term competitive advantage.

9 Conclusions

The purpose contains two parts, the first is to describe and analyze the Swedish private equity industry. The second part is to describe and analyze individual companies' competitive strategy to increase value of portfolio companies and attract capital.

Main findings from the industry analysis

From the data gathering it was discovered that the vast majority of investors in Swedish private equity funds are made by professional institutions. Most of the investments made in private equity funds originate from outside of Sweden with the majority originating from Europe and North America (SVCA b, 2015). There is clearly a large pool of investors interested in Swedish private equity funds which makes it easier for Swedish private equity companies to attract capital.

There is a large amount of differentiation between private equity companies on type of investments strategy, minimum investment size, geographical focus and capital structure. Investments made in private equity funds is a lot more illiquid compared to e.g. public private equity companies with internal capital. This differentiation is beneficial for the private equity companies as they become less commoditized from the viewpoint of an investor and its beneficial for the investor as they can pick a private equity company that suits their requirements.

A private equity company's management team will impact the performance of the private equity company its therefor essential for a private equity company to have a skilled management team. A convenient way for an external investor to assess a management team's capabilities was found to be by looking at their previous track record, this is why a good track record is important for a private equity company in their quest to attract capital.

There are many different sources for Swedish private equity companies to buy/sell a portfolio companies from/to. There is a fluctuation in the amount invested by private equity funds from year to year. This indicates that the market conditions can change from one year to the next. Private equity companies and other companies that have acquisitions as a part of their core business must buy/sell companies to keep operating, regardless of current market conditions. This might even out the demand and supply of portfolio companies on the market.

A further proof of this originate from the case studies were both companies are of the opinion that there are high valuations on the market right now but despite this continues to invest.

Main findings from the case studies

The case company named Volati do not intend to sell of their portfolio companies but instead own them in perpetuity. Volati focuses on creating synergies and long-term ownership which may lead to them looking for different types of companies and also evaluating business in a different way than their short-term focused competitors. Ratos, the other case company, business model is more similar to the ones used by private equity funds with their short-term ownership and autonomous portfolio companies.

From the analysis of both companies its evident that being a public company can be attractive to investors because of increased transparency and more liquidity than private alternatives, this is beneficial when attracting capital. From the industry analysis came the result that a good track record is very important when attracting investors. The track record is indicative of the potential to create value in portfolio companies. A private equity company's ability to create value is there for inherently linked with its ability to attract capital.

Both companies were found to have the opinion that current valuations of portfolio companies are high. Any strategies that can help lower the valuations of the companies they acquire will increase the value of their portfolio. Since both companies are generalists they can be flexible when sourcing and acquiring companies to achieve better deals. Volati promotes bilateral negotiations and have long-term ownership style which can be attractive to a certain sellers of portfolio companies which can yield a lower valuation for Volati when purchasing a company.

Portfolio diversification is not a high priority for either of the studied companies. Ratos wishes to find good standalone investments and to avoid being overexposed rather than to strive for an even distribution. Volati on the other hand value strategic fit a lot more since they strive for synergies and to consolidate their portfolio companies.

Both studied companies have small corporate offices which lowers their fixed costs. Their finance and investment/portfolio management departments can be considered their core and every other department exists to support their work. Both companies utilize consultants to increase capacity when needed and to gain access to outside expertise. Volati also utilizes consultants as part of their due diligence because it's a prerequisite to get a M&A insurance.

When analyzing how both companies increases the value of their portfolio both were found to promote knowledge sharing among their portfolio companies and to provide various support functions and to actively manage their portfolio companies at the top management level. Ratos develops their companies independently from each other. Volati does the opposite and intends to consolidate their companies to achieve synergies. Ratos does not have the opportunities to create synergies between their portfolio companies due to their need to sell them independently from each other. Since both of them only supports their portfolio companies at the top level they don't need a lot of manpower to manage their companies.

When analyzing which strategic capabilities were of the outmost importance to both companies' the employees were found to be essential. Having skilled employees gives them a temporary competitive advantage which can be sustained over time if managed properly.

The companies' structural capital was in both case studies found to have the potential for long-term advantage. The knowledge and experienced gained throughout the years have allowed them to create efficient processes and improved their operating model.

Capital identified as an essential resource to even operate in the private equity industry and does not give a competitive edge. This is supported by the fact that in the industry analysis it was found to be a large pool of investors interested in investing in Swedish private equity companies and capital is therefore not in short supply.

Volatis reputation and ownership style was found to be a competitive advantage and possibly long term competitive advantage. In essence it allows them to source deals in a different way and possibly buy companies at lower valuations.

10 Reflections

10.1 Reflection on the results of the thesis

The industry analysis tries to cover a broad range of companies. Some of the data does not cover every type of company but is analyzed as being representative for the group. To create a more accurate portrayal more data is needed from more types of companies.

Only two companies were studied in the case studies and due to the low number of studied objects it's not sufficient to draw any broad generalizations about the private equity industry.

There are very few public companies that invest only in private equity in Sweden and the selected companies represent a large portion of the group of these companies. Even though they represent a large portion of the group there is only two companies in the study and cannot be used to make generalizations about the whole group.

10.2 Contributions to academia

The Swedish private equity industry is not particularly well studied and this thesis should provide inspiration and knowledge that can be helpful when researching this area. The thesis found that there are very few public companies that invest in private equity. This can be helpful when designing further studies.

The result of the two case studies provides knowledge of which factors are important for an individual company's competitive advantage in this area. It also looks into what kind of competitive advantage certain factors can yield.

10.3 Further research

One of the most interesting result is that there are ways to acquire companies at a lower valuation. Further research could be what the possible methods are or their effect on purchase price.

The private equity industry can easily get complicated when trying to cover all the types of companies that invest in private equity. To combat this, more focused studies can be conducted with e.g. only private equity funds.

One other possible study is to truly explore every type of company operating in this domain and to what extent they operate on the Swedish market.

More in depth studies of individual companies could be done. It could be enlightening to follow one or more company over a period of time, to follow their day to day operations and their decisions.

It could also be rewarding to study private equity funds and compare the results to the case studies in this thesis. There is also the possibility to increase the number of case studies in search for more quantifiable results.

There are very few public companies that invest only in private equity in Sweden. If one wishes to explore this area more it may be required to look outside of Sweden.

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Appendix

Appendix 1 Interview guide

Introduction

- A) Tacka för hen hjälper till, presentation av uppsatsen och syftet med intervjun.
- B) Vad innebär din roll på Voalti/Ratos?

Main questions

- C) Vilka är Ratos/Volatis största styrkor/tillgångar? Varför?
- D) Vad har ni för fördelar/nackdelar gentemot PE-Fonder?
- E) Vilka fördelar/nackdelar har ni som publikt bolag?
- F) Vilka är era största utmaningar just nu? Varför?
- G) På vilka sätt konkurrerar ni med andra private equity bolag?
- H) Vilket tjänster/funktioner köper ni in externt/outsourcar? Varför?
- I) Samarbetar ni med andra företag? Varför?
- J) Vad gör ni föra att vara attraktiv som köpare av företag?
- K) Vad gör ni för att vara attraktiv som säljare av företag?
- L) Vad har ni för visioner/planer för eran portfölj av bolag? Vilka industrier, geograf, diversifiering?
- M) Försöker ni skapa synergier mellan eran portföljbolag? Varför/Varför inte?

Conclusion

- N) Tacka för hjälpen
- O) Fråga om hen vill tilläga något
- P) Förklara uppföljningsprocessen av intervjun