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M&A in the Nordic Region Boosted by the Fundamental Health of Private and Public Companies

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With positive macroeconomic data coming from the Nordic region (Norway, Sweden, Denmark and Finland) along with strong M&A activity, S&P Capital IQ analysed the M&A trends in the region as compared to Western Europe – including the UK & Ireland – and how the fundamental performance of privately-held and publicly-traded entities is contributing to these developments.

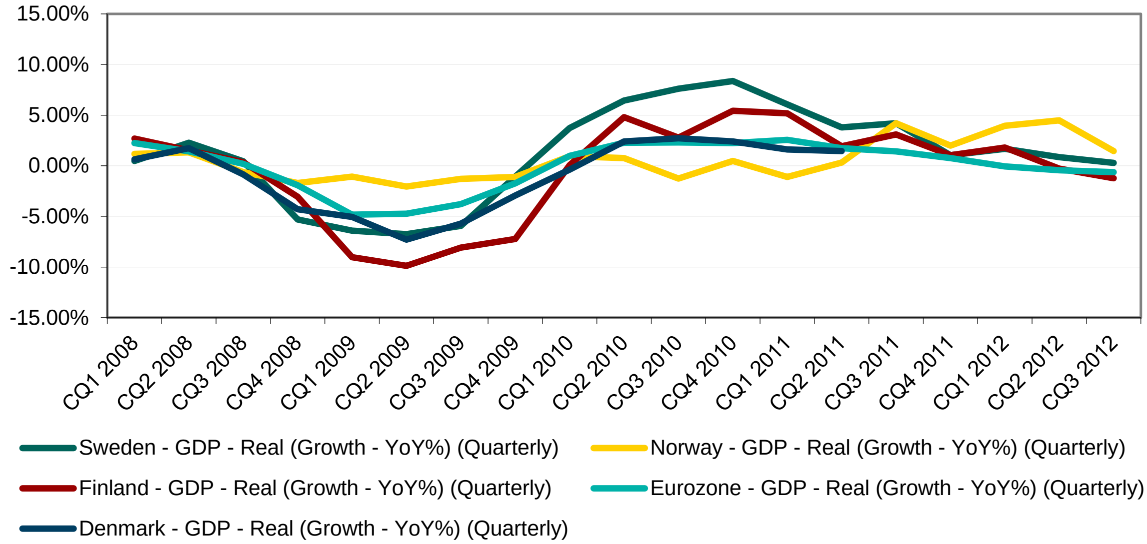
Key Findings:

- M&A activity in the Nordic region grew in total value by 27.8% in 2012 from the previous year, while contracting by 30.4% in Western Europe and 2.7% in the UK & Ireland over the same period
- In 2012, SMEs increased their contribution to total M&A value in Western Europe (to 13.2% from 5.1% in 2011) and the UK & Ireland (to 7% from 6% in 2011), despite the drop in total M&A activity
- Private and public companies in the Nordics are fundamentally strong, reflected by double-digit revenue growth and efficient operations
- But the high level of indebtedness in private Nordic firms may need to be addressed if they are to maintain this rebound from the economic crisis

Strong Nordic Macroeconomics

In 2012, all Nordic countries experienced average GDP growth while GDP in the Eurozone decreased. In Q3 2012, Eurozone GDP was down -0.62%, while Norway saw the highest growth in the Nordics at 1.46% (see chart 1). Moreover, all four countries boast AAA ratings and "stable" outlooks from Standard & Poor's Ratings Services, while only seven such countries remain in Europe following years of financial and economic crises. Standard & Poor's Market Derived Signals, a CDS-based indicator of creditworthiness, show a 'aaa' score for all four countries as of 5 February 2013, implying that the market's sentiment on credit is also very strong with hardly any downward deviation from a 'aaa' score in the last five months (see table 1).

Chart 1: GDP Real Growth Year on Year (YoY) %



Source: S&P Capital IQ platform. As of 15 January 2013.

Table 1: Standard & Poor's Ratings, CDS Spreads and Market Derived Signals Summary for the Nordics

	S&P Ratings		CDS Spreads & S&P Market Derived Signals			
Description	**Long-Term Rating**	**CW/ Outlook**	**Score Date**	**Spread (bps)**	**Change (%)**	**CDS MDS**
Denmark (Kingdom of)	AAA	Stable	06-Feb-2013	31	-1.4	aaa
Finland (Republic of)	AAA	Stable	06-Feb-2013	29.6	-1	aaa
Norway (Kingdom of)	AAA	Stable	06-Feb-2013	18.5	1.8	aaa
Sweden (Kingdom of)	AAA	Stable	06-Feb-2013	18.4	-3.3	aaa

Source: S&P Capital IQ RatingsDirect®. As of 7 February 2013.

Sturdy Nordic M&A Growth

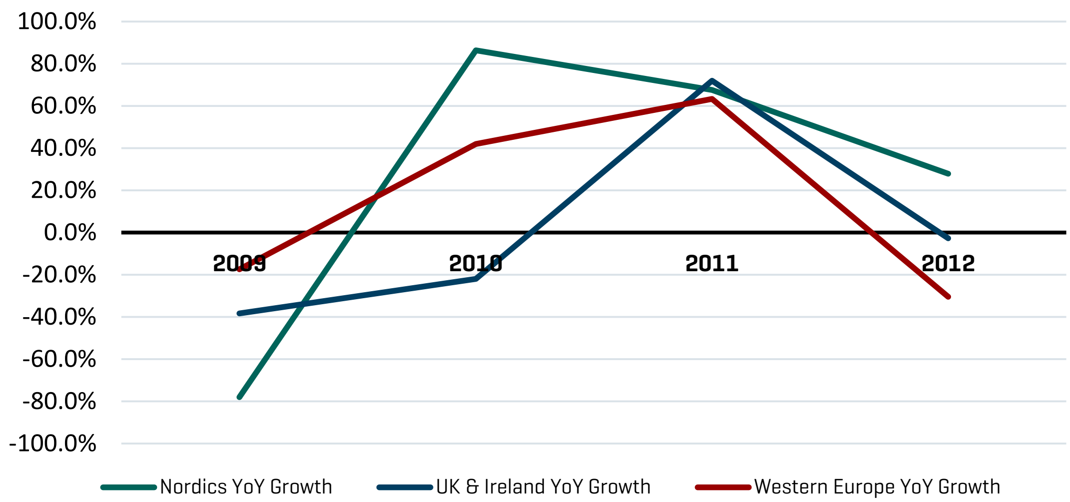
This relatively strong economic recovery for the Nordics is further exemplified by figures showing that total M&A value grew by 27.8% in 2012, despite a slowdown from 2011, while at the same time contracting by 30.4% in Western Europe and 2.7% in the UK & Ireland (see chart 2). The growth brought total deal value up to $19 billion from $15 billion in 2011 – edging the $20 billion mark for the first time since 2008, when deal value totalled $22 billion. By contrast, total M&A deal value contracted from $40 billion in 2011 to $39 billion in 2012 in the UK & Ireland. Furthermore, Western Europe as a whole saw a contraction from $80 billion in 2011 to just $56 billion in 2012.

The contraction in M&A deal value in the UK & Ireland is a result of falling demand for large businesses. Indeed, 7% of the total M&A value in 2012 for the UK & Ireland can be attributed to SMEs – defined as businesses with total revenues below $100 million – up from 6% in 2011.

Western Europe's SMEs saw an even larger increase from 5.1% to 13.2% of total M&A value in 2012. These are good indications that small business are contributing to the economic growth of these regions.

The buoyancy of Nordic M&A is due in part to the targeting of healthy SMEs in the region. 77.6% of the transactions in the Nordics in 2012 targeted SMEs, with the figure as high as 91% in Finland – that is 30 out of 33 transactions. The most active buyers of Nordic companies by countries in 2012 were the United States (19 transactions), the United Kingdom (10) and Germany (8).

Chart 2: M&A Total Deal Value Growth Year on Year (YoY) %



Source: S&P Capital IQ platform. As of 23 January 2013.

Private Nordic Companies Fundamentally Strong Along With Their Public Peers

The robust M&A activity in the Nordic region is supported by strong revenue growth and short-term liquidity profiles, as indicated by Days Sales Outstanding (DSO). For example, in 2012, strong double digit average-revenue growth in privately-held and listed Nordic companies contributed to the overall Nordic fundamental health. In fact, revenues increased in all sectors across all countries, with only two listed sectors reporting revenue contractions: publically-traded healthcare (-3.7%) and utility (-2.1%) companies in Finland.

Private and public energy sector firms, in particular, consistently witnessed some of the highest average revenue growth rates across Norway, Sweden, Denmark and Finland, according to the latest annual figures. But the highest annual revenue growth rates were witnessed in the Danish and Swedish public utilities sectors, with 67.0% and 52.1% respectively, followed by the Norwegian private energy sector, which saw their annual revenues grow by 36.4%.

Operational health for private Nordic firms, as indicated by DSO – a measure of how quickly a given business can translate sales into income – is also very strong. In Sweden, private businesses reported a respectable receivables turnaround time of only 34.4 days – with the consumer staples sector boasting the best of 11.5 days – while their listed peers reported DSOs of 59.72 days, on average. This demonstrates the relative operational strength of privately-held entities in Sweden, which managed to convert receivables into cash almost twice as fast as their public counterparts. Finnish private consumer stables also had lower DSO than their public counterparts with 15.1 days, as well as private Danish telecommunication services with 27.5 days.

However, examining the capital structure of businesses across Nordic countries, the average reported debt proportions – as measured by Total Liabilities to Total Assets – were higher for privately-held firms than listed businesses in all of the four countries analysed, according to their latest annual figures. This trend was particularly clear in Sweden, where private companies reported Total Liabilities to Total Assets of 71.4%, on average, with utility firms topping the list at 85.4%. Publically-traded firms in the same country meanwhile reported a lower average Total Liabilities to Total Assets rate of 53.1%.

Examining the latest annual current ratios, private companies in Denmark and Finland have higher ratios than their public counterparts, a positive reflection on their debt proportions. However, for private companies in Sweden and Norway, the opposite is true. This high level of indebtedness may have contributed to the high average return growth previously mentioned, but some precautionary measures by private Nordic firms may need to be applied if they are to preserve their recovery from the economic crisis of recent years.

Conclusion

While the Eurozone is still recovering from the financial crisis and the UK is teetering on the edge of a triple dip recession, the Nordic region is not only defiantly standing its ground but showing positive sings of things to come. M&A activity has been positive in 2012, with a respectable proportion of the activity coming from small businesses. Strong fundamentals for private and public companies in the Nordics are also clear, led by double-digit average revenue growth in Danish and Swedish public utilities sectors and the Norwegian private energy sector. For 2013, the relative indebtedness of the Nordic region's private sectors will be a big focus if the countries are going to maintain their strong economic health. And even though M&A activity was not particularly strong in Western Europe and the UK & Ireland, it is reassuring to see that SMEs – the backbone of any solid economy – posted stronger M&A activity in 2012 than in 2011.

Behind the Analysis: M&A in the Nordic Region Boosted by the Fundamental Health of Private and Public Companies

S&P Capital IQ platform

The S&P Capital IQ platform combines deep global company information and market research with powerful tools for fundamental analysis, idea generation, and workflow analysis. This interactive and dynamic web and Excel-based platform provides easy access to yield curves and bond price data.

S&P Capital IQ platform screening tool

To conduct this analysis we used the S&P Capital IQ platform's screening engine which allowed us to search for private and public company fundamentals. A search screen was conducted based on the following criteria:

- Geographic location: Nordics/Western Europe/UK & Ireland
- Company Type: Public/Private
- Target/Issuer LTM Financials - Total Revenue: Greater than/Smaller than USD 100 million

The search resulted showed 3,919 private companies for Denmark, 8,347 private companies for Finland, 16,546 for Norway and 20,421 private companies for Sweden. Public companies considered in this analysis were 112, 108, 163, and 399 for Denmark, Finland, Norway and Sweden respectively.

RatingsDirect®

S&P Capital IQ's RatingsDirect® is a web-based workflow solution providing access to Standard & Poor's credit ratings and research, including information on Issuer Credit Rating changes and CreditWatch outlook actions. Historical ratings data can be accessed and downloaded via the Global Credit Portal.

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