Who Let the Dogs Out?

A Case Study of Fidelio Capital's and Nordic Capital's Investment in AniCura*

Haris Valjevac† & Sigurd Log Røren‡

Master Thesis in Finance

Stockholm School of Economics

ABSTRACT

We aim to study the value creation in a buy-and-build strategy, how secondary buyouts can create value and how an extreme number of acquisitions can be transformed to one company. To do this, we studied AniCura (prev. Djursjukhusgruppen) during Fidelio Capital and Nordic Capital's ownership from 2011–2018, in a single case study. We found that a buy-and-build strategy can be much more than multiple arbitrage. To hold the network of clinics together, active management of the organizational structure, culture and best-practices was needed. Our findings also suggest that different private equity houses can create value at different stages in AniCura's growth journey. This can partly be explained by the difference in the size of the private equity houses. Lastly, we found that the group was held together by a culture that the veterinarians preferred to being independent. The culture was partly pre-determined through sourcing of targets and partly influenced by strategic management of the clinics.

Keywords: Buy-and-Build, Private Equity, Secondary Buyouts, Merger Integration

Supervisor: Per Strömberg, Centennial Professor of Finance and Private Equity, Department of Finance at the Stockholm School of Economics

*We would like to express our gratitude to our supervisor Per Strömberg for his dedicated guidance and insightful comments. Moreover, we would like to thank all the interviewees and their respective companies and organizations, who granted us their time and effort, and made this thesis possible — Gabriel Fitzgerald, Peter Dahlberg, Thomas Vetander, Richard Riboe, Per-Arne Rudbert, Björn Rosén, and Leif Nordqvist. Also, we would like to thank Joshua Zippis for his input. Lastly, this paper is a result of our work — any potential mistakes are ours, and we blame each other.

†Available at 23744@student.hhs.se

‡Available at 23820@student.hhs.se

Contents

1 Introduction

On 11 June, 2018, Nordic Capital (Nordic, NC) issued a press release that AniCura was to be divested to Mars Petcare (Mars). The transaction is one of the largest in the veterinary sector, globally (Nordic Capital, 2021e). Even though terms of the deal remain confidential, it has been rumoured to be valued at around EUR 2 bn and to have yielded Nordic Capital a seven-fold return on their money (Private Equity News, 2018). In this thesis, we will perform a case study on the development of AniCura focusing on the private equity owners.

1.1 Overview of the Case

Ten years ago, the veterinary care market in Sweden was highly fragmented with more than 300 companies, whereof more than 80% of the companies had revenues of less than SEK 10 mn per year (∼EUR 1 mn). In 2018, the majority of clinics in Europe were small with less than 5 employees (FVE, 2019).

In late 2011, Fidelio Capital (Fidelio) created AniCura through the merger of Stockholms Regiondjursjukhus, Falu Djursjukhus, Västra Djursjukhuset i Göteborg, with The Greater Stockholm Veterinary Hospital Foundation (The Foundation) as partner. This would serve as the platform for a buy-and-build strategy. The vision was to create a group of veterinary clinics with centralized back-office support and substantial independence in the day-to-day business. By 2014, AniCura had expanded to Norway and Denmark.

In 2014, Nordic Capital bought the majority of the company, but both The Foundation and Fidelio Capital continued as minority owners. During Fidelio's and Nordic's ownership, more than 200 acquisitions were made and integrated into a pan-European veterinary care group. In 2018, the group was sold to Mars Petcare.

During 2012-2017, AniCura grew on average 46% per year (CAGR) organically and through acquisitions. The number of clinics increased from 31 in 2012 to 250 in 2018. In terms of profitability, the EBITDA margin increased from 4.9% to 11.6%. AniCura succeeded in growing and while increasing profitability during a pan-European expansion. We think that AniCura serves as an interesting case-study due to the uniqueness of the case and the extreme number of acquisitions.

By using a case study framework, we hope to contribute to the current literature by investigating how value is created in the AniCura roll-up. As researching private equity, and especially buy-and-build strategies, is very difficult due to data quality issues, we deem a case study as the best method to investigate our research questions. Building on the methods used by Kaplan (1990), Baker and Wrüch (1990) and Baker (1992), we will use a case study framework to study this transaction. Similar to Kaplan (1990) and Baked (1992) our main sources of information gathering are interviews as well as private and public information.

The purpose of this thesis is primarily to deepen the understanding of buy-and-build strategies by analyzing the value creation in AniCura through a case study. Secondly, we also aim to contribute to the current literature by expanding the literature on complementary skills in secondary buyouts and the importance of culture to hold a group together. Thirdly, we hope to contribute to the teaching at Stockholm School of Economics. Hopefully, our findings can be used to write a case for teaching purposes.

The literature on how private equity firms create value is extensive, but the literature on how private equity firms create value creation in buy-and-build cases is more limited. To our knowledge, the literature on buy-and-build cases of this magnitude (over 200 acquisitions over less than seven years) is scarce. The literature has, to our knowledge, focused on the frequency of buy-and-build cases and their acquisitions, as well as the M&A skills on the portfolio level. To contribute to the current literature, we ask the following research question:

(i) How was value created in the buy-and-build case AniCura?

The literature on secondary buyouts (SBOs) focuses on the returns generated and how they are affected by pressured buyers or sellers. Researchers have also looked into how complementary skills affect the value creation in secondary buyouts. We draw on this literature and look at how value was created through the secondary buyout in a buy-and-build:

(ii) How did the secondary buyout create value in the buy-and-build case AniCura?

One interesting aspect of the AniCura case was the extreme number of acquisitions, equivalent to an acquisition every second week. Therefore, AniCura is an interesting case for studying the importance of integration. Also, as the vision was to create a group with substantial independence in the day-to-day activities, it is also a good setting for studying how autonomy in and coordination of business activities affected the merger integration.

(iii) How did AniCura integrate the more than 200 acquisitions?

Our findings suggest that part of the value creation in the buy-and-build case was to create a platform company that was big enough to partner with private equity houses. According to our case study, one of the reasons why private equity houses had not started a consolidation earlier was that there were no companies big enough to serve as a platform company. We also found that during the private equity companies ownership, value was created by the spread of best-practices. Despite this, the primary value creation seems to come from centralizing the headquarter function, creating a culture that the veterinarians prefer to be independent and giving the veterinarians independence in how they conduct the day-to-day business.

Regarding the secondary buyout, we found, in line with the literature, that the different private equity owners can complement each other. The case study suggests that the private equity houses were able to add value at different stages of AniCura's development. The smaller private equity house could work more closely with the portfolio company in the beginning, when the group was at its most fragile. Later, the group matured and the larger private equity firm could create value through professionalizing the organization further.

Lastly, we found that the culture was the glue that held the group together. The culture was created by acquiring targets with a good cultural fit and by creating a unified corporate identity. The cultural fit of the targets were ensured by using the recommendation from veterinarians and nurses within the group. The unified corporate identity was supported by a unified brand, social gatherings, educational programs and the opportunity for employees to buy shares in the group.

The rest of the paper continues as follows. Firstly, we will present the current literature on value creation private equity, secondary buyouts, buy-and-build strategies and mergers. Thereafter, we will present our case methodology, before the case is presented. After the case, the discussion follows before the conclusion ends the paper.

2 Literature Review

In this section we will review the literature on value creation in private equity. The chapter will start with a short review of the literature on private equity fund performance to assess whether private equity firms create value. Then, the chapter will continue with a review of how private equity houses create value in the portfolio companies. As AniCura went through two rounds of private equity ownership during the buy-and-build, before it was sold to a strategic buyer, we will review the literature on secondary buy-outs before reviewing the literature on buy-and-build strategies. Since such strategies can be viewed as a mix between the financial thinking of a traditional leveraged buyout (LBO) and the long-term synergy focus of strategic buyers, we will also review the literature on mergers and acquisitions, and especially horizontal mergers. Following the review of the M&A literature, we will end the chapter by reviewing the literature on merger integration.

2.1 Private Equity Performance

To assess if private equity firms create value, we will shortly review the literature on private equity returns. Despite the surge of capital inflow to the PE industry, researchers still have difficulties regarding the estimation of private equity performance. The difficulty can be explained by uneven disclosures and questions regarding the quality of data available to researchers (Harris et al., 2014). Even though there are some methodological differences, most researchers benchmark PE funds to public-market equivalents, but with different data samples. While some researchers estimate that buyout funds outperform the public market (Robinson and Sensoy, 2016; Ljungqvist and Richardson, 2003; Gompers and Lerner, 2000; Harris et al., 2014), others estimate the abnormal returns to be negative (Kaplan and Schoar, 2005; Phalippou and Gottschalg, 2009).

2.2 Value Creation

Following the distinction made by Kaplan and Strömberg (2009) we will divide the value creation literature by operational engineering, governance engineering and financial engineering. This subsection will follow the previously mentioned order.

2.2.1 Operational Engineering

In this subsection we will review the literature on how private equity houses create value through operational engineering of their respective portfolio companies. As the private equity industry has matured and the competition has increased, private equity houses have moved into improving the operational performance of the portfolio firms (Kaplan and Strömberg, 2009; Harris et al., 2014; Gompers et al., 2016).

Harris et al. (2014) found that the importance of leverage, i.e. a form of financial engineering, decreased after the 1980s and was replaced with operational engineering. Jensen (1989) found in an early study that private equity funds seem to have a special expertise in corporate restructuring, resulting in operational gains. Acharya et al. (2013) found that, on average, large, mature PE funds in Western Europe create value through margin improvements and multiple expansion. In line with the findings of Acharya et al. (2013), Cohn et al. (2014) found that sponsor-backed companies have better operational performance than industry peers. Additionally, Guo et al. (2011) found that private equity-backed firms increase EBITDA-to-total-assets with 11% and net-cash-flow-to-total-assets with 22% relative to a matched sample of non-LBO firms. They found that even though there was little evidence of profitability increases, the productivity increased since EBITDA and net cash flow were generated using less assets. Gompers et al. (2016) found that private equity firms say that they focus more on revenue growth than cost cutting measures.

Private equity houses have also been found to improve productivity. Davis et al. (2014) found that sponsor backed companies increase productivity by accelerated elimination of low productivity business units and more frequent introduction of high productivity initiatives. Private equity ownership has been found to increase productivity more than the industry average (Lichtenberg and Siegel, 1990). A recent study found that the best practices created by the private equity firms, spread to competitors within the same industry (Aldatmaz and Brown, 2020).

The literature suggests that private equity ownership is associated with improved operational performance, but how do private equity firms improve performance? Acharya et al. (2013) argue that the performance is at least partly explained by differences in human capital or skills of the deal partner. Hence, they conclude that the deal partners' expertise is likely the reason behind the persistent and significant out-performance by the large, mature, Western European PE funds. Bernstein and Sheen (2016) studied restaurant chain buyouts and found that the private equity firms create value by bringing in industrial expertise. The operational improvement is more probable when the private equity firm has prior industry expertise (Bernstein and Sheen, 2016).

2.2.2 Governance Engineering

Governance engineering entails value creation through improved corporate governance. Jensen (1989) argued that improved incentives was an important value driver. Other initiatives are improved boards and the replacement of the CEO.

Jensen (1989) argued that private equity firms increase productivity on the portfolio company level by aligning incentives. Backer and Wruck (1989) found that the pressure arising from increased debt burden from the LBO leads to improved performance, as well as the introduction of management incentive programs. They also emphasized decentralization of decision making and the relationship that is between management, the private equity firm, and the Board of Directors.

These findings are supported by more recent research. Gompers et al. (2016) found that private equity firms create value through monitoring and aligning incentives. It has also been found that replacing the senior management of the portfolio firm is common in buyouts (Gompers et al., 2016; Guo et al., 2011). Guo et al. (2011) found that when a public company is taken private by a private equity firm, the board size is reduced and outside directors are commonly replaced by GPs. If the portfolio company is in need of close monitoring, the presence of GPs increases (Guo et al., 2011). Acharya et al. (2009) compared the board structure and modus operandi of boards of sponsor-backed firms and public boards in the UK (public limited corporation, PLC). They found that the board of sponsor-backed companies focus on “leading” the strategy through frequent contact with the firms’ management. This is in contrast to the more compliance and risk management focused boards of PLCs (Acharya et al., 2009).

2.2.3 Financial Engineering

Financial engineering refers to the use of leverage as a means of value creation. In addition to gearing the returns, leverage imposes restrictions on management and can improve cash discipline (Kaplan and Stromberg, 2009).

While financial engineering was more important in the 1980s (Harris et al., 2014; Kaplan and Stromberg, 2009), it still plays an important role in value creation of private equity firms (Cohn et al., 2014). Cohn et al. (2014) found that private equity owned firms do not reduce the leverage post LBO. They found that this is also true for companies with excess cash flow after interest payments.

Private equity firms with good reputation seem to be able to use more leverage in LBOs, with better credit terms (Demiroglu and James, 2010). Axelson et al. (2009) found that private equity investments are sensitive to credit conditions. In line with the findings of Axelson et al. (2009), Demiroglu and James (2010) found that private equity houses use market timing resulting in more PE activity when credit spreads are low.

Another aspect of financial engineering might be how much private equity firms pay for the portfolio firms. Bargeron et al. (2008) found that public bidders paid a 63% higher premium than private equity firms for public targets. They think that unobservable firm characteristics that give rise to synergies can explain the difference. The difference in bid premiums is highest between public firms with low managerial ownership and private equity firms, which Bargeron et al. (2008) interpret as possible agency problems. Building on this research, Du and Gerety (2018) test if agency problems are a causal determinant of bid premiums. They found that the relationship is not causal and argued that operating firms and private equity firms instead operate in different markets which means that they acquire different companies.

2.3 Secondary Buyouts

Secondary buyouts (SBOs) is when a private equity house buys a company from another private equity firm. The first private equity owner of the company is referred to as the primary buyer and the second private equity owner is known as the secondary buyer.

Several researchers have looked into the performance of SBOs. Secondary buyouts have been found to be associated with lower increases in operating performance (Wang, 2012) and lower average returns (Achleitner and Figge, 2014) than traditional buyouts, i.e., primary buyouts. Secondary buyouts on average use more debt than primary buyouts (Axelson et al., 2013).

The value creation in SBOs has been found to be sensitive to whether the buyer or seller is pressured (Arcot et al., 2015; Degeorge et al., 2016). Arcot et al. (2015) found that pressured buyers, i.e. uninvested funds, tend to pay higher multiples, while pressured sellers, i.e. fund life close to the end, tend to accept lower multiples, adjusting for market conditions and firm characteristics. They found that secondary buyouts are associated with lower internal rate of returns (IRRs) when one of the parts is pressured and that the acquisition price is determined by relative negotiation power. Also, they found that secondary buyouts are associated with lower value creation. This is in line with one of the findings of Degeorge et al. (2016) suggesting that when a fund is close to the end of its limited life, GPs are more likely to engage in so-called “money burning” activity. Despite this, Degeorge et al. (2016) also found that if the buyers and sellers have complementary skills, the secondary buyout can outperform traditional buyouts. The complementary skills used in the study are that the buyers and sellers have different educations, different career paths and that a regional private equity house sells to a global secondary buyer.

2.4 Buy-and-Build Strategies

An important part of the value creation strategy of AniCura was to acquire veterinary clinics and hospitals to create one large group. Since the AniCura case can be viewed as a buy-and-build strategy, we will also review the literature on this topic.

The increasing competition in the market for corporate control has resulted in traditional benefits from LBOs becoming “commoditized” (Sensoy et al., 2014; Braun et al., 2017; Brown et al., 2020). Therefore, hybrid strategies combining benefits from LBOs with the long-term synergy focus from strategic buyers have become more common (Bansraj et al., 2020). Bansraj et al. (2020) finds that these M&A driven strategies are likely motivated by operational synergy benefits. This is often referred to as *buy-and-build* strategies and represents approximately 40% of deals, based on a sample of private equity deals from 1997 and 2012 in 86 countries (Hammer et al., 2017).

Buy-and-build strategies start with the private equity firm buying a so-called platform company in a fragmented industry (Døskeland and Strömberg, 2018) and then performing several add-on acquisitions with the aim of creating an entity superior in terms of performance and returns (Borell and Heger, 2013). The add-on targets are often acquired at low valuations (Døskeland and Strömberg, 2018).

In buyouts, add-on acquisitions are more likely if the portfolio firm has add-on experience from the previous sponsor (Hammer et al., 2017). They found that the probability of a buy-and-build strategy increases if the portfolio firm is big and has M&A experience at entry, and if the sponsor has a good reputation. The frequency of add-on acquisitions also increases when the industry is moderately fragmented and debt markets are favourable (Hammer et al., 2017).

In a buy-and-build strategy, PE-backed platform companies increase the number of acquisitions drastically, but not the complexity of acquisitions (Hammer et al., 2017). In this case, complex transactions refer to acquisitions outside of the portfolio companies industry and location. The PE house also improves the M&A skills in the portfolio company. (Hammer et al., 2017) Hammer et al. (2017) find that on average buy-and-build strategies create value by increasing enterprise value, EV/Sales multiples, EV/EBITDA multiples, and operating margins.

2.5 Mergers and Acquisitions

2.5.1 Mergers and Synergies

Since a buy-and-build strategy can be viewed as a hybrid between a traditional LBO and the synergy focus of a strategic buyer (Bansraj et al., 2020), we will present the academic literature on strategic buyers' M&A activity and behaviour. Public companies serve as a good starting point since researchers can investigate the price reactions of both the target and the acquiror. First, we will review the literature on value creation in M&A. Then, we will review the literature on horizontal mergers as a buy-and-build strategy primarily consists of acquisitions in the same or adjacent industries. Lastly, we will review the literature on merger integration.

Mergers and acquisition activity seems to follow highs and lows of activity, so-called merger waves (Eckbo and Thorburn, 2008). These waves have been found to occur when book-to-market ratios are high, and thus, overvaluation of synergies have been found to drive merger activity (Rhodes-Kropf et al., 2005; Ang and Cheng, 2006; Dong et al., 2006). This research has been challenged by Harford (2005) who argued that market liquidity is the driver of both merger activity and overvaluation, which explains why the two coincide.

Researchers have found that M&As are primarily driven by a focus on synergies and that the shareholders of the target companies capture most of the value increase. Bradley et al. (1988) found that the price increase of the combined entity, i.e. both the target and acquirer, is sustained only when the takeover is successful. This indicates that the abnormal positive returns following a merger announcement is not due to a re-evaluation of the business models, but due to expected synergies (Bradley et al., 1988). The lion share of the value increase is captured by the target shareholders (Bradley et al., 1988; Fuller et al., 2002).

Newer research suggests that the value of synergies are larger than previously thought (Eckbo, 2014). According to Eckbo (2014), gains to the target have been found to be large and significant, and the returns to the combined entity are positive on average. However, Eckbo (2014) emphasized the econometric difficulties in measuring synergies. Due to the size difference between the acquirer and the target, they call identifying the synergies in the combined entity post merger like "looking for a needle in a haystack" (2014:67).

The successfulness of mergers has been found to depend on target characteristics. Research suggests that acquirers look for targets with complementary attributes (Rhodes-Kropf and Robinson, 2008) and that synergies come from economies of scope by reducing the targets' non-productive initiatives (Gomes and Livdan, 2004). By studying firms that make five or more successful acquisitions within three years between 1990 and 2000, Fuller et al. (2002) also found that bidders experienced significantly positive returns when buying private targets, and vice versa for public targets. The former is regardless of payment method (i.e., cash, stock, or a mix between cash and stock), but bidders receive a better price when offering shares than cash settlement. This effect is more positive the greater the relative size of the target. The positive returns when a public company acquires a private company can be explained by the liquidity effect.

Research has also suggested differences in the acquisition behaviour of strategic and financial buyers. Strategic buyers are on average willing to pay more for targets (Gorbenko and Malenko, 2012; Boone and Mulherin, 2007), while financial buyers have been found to be willing to pay more for targets with low performance (Gorbenko and Melanko, 2012). This is consistent with the argument that strategic bidders are willing to pay more for expected synergies, while financial buyers are willing to pay more for targets they can improve.

2.5.2 Horizontal Mergers

Buy-and-build strategies are common in fragmented industries and are often horizontal mergers, i.e. that the target and bidder is on the same level in the value chain. Researchers have studied if horizontal mergers are driven by synergies, i.e. the efficiency hypothesis, or by limiting competition through increasing market shares, i.e. the collusion hypothesis (Betton et al., 2008).

Many studies have used an event study framework and rejected the market power hypothesis. Eckbo (1983) investigates if horizontal mergers create value through collusion. The paper argues that in the case of collusion, rivals will be able to freeride on the volume reduction imposed by the merging firm. Therefore, if the merger is challenged by antitrust authorities, rivals to the merging firms should see negative abnormal returns on the day of the antitrust challenge. By studying 259 horizontal mergers with, on average, 11 rivals, in the period 1963 to 1978 using event studies, Eckbo (1983) found no support for the collusion argument.

Studies have later included customers and suppliers and found wealth gains for the industry and no systematic losses for customers (Fee and Thomas, 2004; Shahrur, 2005). Thus, both studies rejected the collusion hypothesis. Fee and Thomas (2004) also found that suppliers are negatively affected if their contracts are terminated. The paper argues that the negative effect can be explained by either collusion or efficiency improvements in purchasing. Bhattacharyya and Nain (2011) found that combined entities' purchasing power increased after a horizontal merger which resulted in lower supplier prices. While Aktas et al. (2006) found that the competition in the industry increased after a horizontal merger, Akdogu (2011) found negative wealth gains for the industry as a whole, but competitive gains for the new combined entity.

McAfee and Williams (1988) challenged the method used by Eckbo (1983), and Fee and Thomas (2004) by investigating the Xidex and Kalvar merger in 1979. They find that the rivals of the merging companies experience no abnormal negative returns following the antitrust challenge by the Federal Trade Commission (FTC). Thus, McAfee and Williams (1988) cast doubt on the effectiveness of event studies to research collusion motivations in horizontal mergers.

2.5.3 Merger Integration

Merger integration is the process of creating one entity of the acquirer and the target. The research emphasizes viewing merger integration as a continuous process, rather than two distinct processes, i.e. pre- and post-merger (Chanmugam et al., 2005; Bauer and Matzler, 2014). As most acquisitions do not meet the desired outcome (Krug et al., 2014), several researchers have looked into what makes a successful post-merger integration. Chanmugam et al. (2005) argues that in addition to viewing the merger process as a holistic process, there needs to be a focus on value creation simultaneous with the focus on integration.

Researchers have found that one of the main challenges to a successful post-merger integration is difficulties in creating a unified organization for target and acquirer employees (Krug et al., 2014; Spoor and Chu, 2018). Spoor and Chu (2018) studied how *communities of practice* (CoP) affect merger integration which are informal meetings between employees where knowledge is exchanged. Through strategic management of CoP, the identification to the new group can be increased (Spoor and Chu, 2018).

A survey of executives showed that 48 percent would cancel a deal if the culture fit was not good and that 28 percent would demand a discount to the purchasing price (Graham et al., 2016). Lack of cultural fit has been found to be the main reason why mergers fail (Van den Steen, 2010). According to him, if the cultural fit is good, the new group would need less monitoring and increase employee satisfaction, but also decrease innovation. One challenge with the merger of different organizational cultures is that the cost of culture clash can be immediate, while the gain of cultural similarity or complementation can take time (Van den Steen, 2010). Research has also found that it might be wrong to claim that culture is exogenous as a value-adding culture can be introduced to the target (Wang and Xie, 2009).

Another important aspect of the post-merger integration is the degree of coordination and autonomy in the new combined entity. Puranam et al. (2006) viewed this as a trade-off where a higher degree of integration/coordination decreases the innovation in technology acquisitions. If there is a high degree of cultural fit between the target and the acquirer, and the relative size between the two companies is large, there might be less need for formal coordination (Bauer and Matzler, 2014). Zaheer et al. (2013) found that integration and autonomy might not be opposites if the target and acquirer have complementary attributes rather than similar attributes. They found that in complementary acquisitions, a high degree of autonomy and integration creates value. The autonomy is value-adding when the target has resources that are unfamiliar to the acquirer (Zaheer et al., 2013).

3 Case Study Methodology

3.1 Data Collection

As researching private equity, and especially buy-and-build strategies, is very difficult due to data quality issues, we deem a case study as the best method to investigate our research questions. Following the methods used by Kaplan (1989) and Baker (1992), we will use interviews as well as public and private information as the starting point of the analysis.

To gain a better understanding of the AniCura case, we have interviewed decision makers close to the company Our interviewees have been members of the management team, of the private equity house dealteam and other owners. We also interviewed an independent observer from the Swedish Competition Authority, Konkurrensverket, to have an outside perspective from a market regulator.

To understand the journey from a cluster of clinics in the Stockholm region to a European expansion, we interviewed the Chairman and Vice Chairman of The Foundation who owned the cluster of clinics in Stockholm. We also interviewed the founder and CEO of Fidelio Capital. The investment company that started the roll-up and assisted AniCura's M&A organization for the first 2.5 years. Furthermore, to understand how the organization was professionalized, we interviewed a partner at Nordic Capital. Since both of these decision-makers had an owner perspective, we also interviewed the CEO of AniCura to gain insight in the day-to-day decision making and the operational perspective. Please refer to Table I for an overview of the interviewees for the case study in this paper.

Table I
Overview of Interviewees

The table shows an overview of the interviewees in this case study. Note that *Company and Role* reflects the role the interviewees' had at the time of the case.

Interviewee	Company and Role
Gabriel Fitzgerald	Fidelio Capital, Partner
Peter Dahlberg	AniCura, CEO
Thomas Vetander	Nordic Capital, Principal
Richard Riboe	Nordic Capital, Investment Manager
Per-Arne Rudbert	The Greater Stockholm Veterinary Hospital Foundation, Chairman
Björn Rosén	The Greater Stockholm Veterinary Hospital Foundation, Vice Chairman
Leif Nordqvist	Swedish Competition Authority, Councel

Since the interviews were our main data sources, we emphasised preparing, conducting and documenting the interviews. We used a semi-structured approach, indicating that we prepared the structure and questions for each interview, but also adapted it to the situation during the interview. While a few questions were general for most interviewees, most questions were adapted to the specific role and relation to AniCura. To deepen our understanding we used follow-up questions and interviews when deemed necessary.

Our interviews took place between March 23, 2021 and May 4, 2021, using a mix of mediums. One was held physically, whereas the rest was held through other mediums that did not require a physical meeting, mostly due to the current pandemic (telephone, Zoom, Microsoft Teams). The length of interviews varied between about 30 minutes to about 90 minutes. All interviews were recorded and transcribed shortly after the interviews took place, in order to make the case writing and quoting easier, as well as more correct.

Furthermore, the interviewees have received two drafts of Section 4 The Case, to ensure that they feel that their memories, experiences and opinions have been portrayed fairly, as well as giving them a chance to correct any potential factual mistakes that could arise due to e.g., misinterpretations from our side, missayings, etc. This does not mean that the interviewees have had an opportunity to affect the direction of the paper, its discussion and its conclusions. The paper in its entirety is a result of our work, judgement and analysis.

3.2 Methodological Considerations

Even though case studies are heavily used in corporate finance and private equity research, it has some weaknesses. According to Yin (2014), some have criticized the method for not being rigorous enough and therefore prone to biases. This can be true in some cases, but can be avoided by proper preparation and documentations (Yin, 2014).

As many other methods, it can be difficult to generalize the results from a single case study. In general, researchers should be careful with making inference from the sample studied, unless the sample is randomized. Consequently, researchers should be careful with making inference from a single study on private equity. Although, inference can be made from a large number of studies (Yin, 2014). Since the current literature has not been able to conclude on how value is created in buy-and-build strategies, we hope to contribute to the current literature by using a new method.

To check the validity of our research, we have used triangulation, i.e., comparing findings of data from different sources (Yin, 2014). Firstly, we compared the findings from the in-depth interviews with decision makers in the transactions, with interviews of an independent subject and private and public secondary sources. Fidelio Capital and Nordic Capital have provided us access to confidential material. Secondly, we compared the findings between different groups of subjects, such as the owner perspective and the management perspective. Lastly, we compared our findings to the current academic literature. We hope that these methods of triangulation will improve the validity of our findings. Thirdly, it is important to note the scope of our thesis. We have focused on the perspective from the owners and the management. Therefore, we have not interviewed other stakeholders as veterinarians, customers, insurance companies or suppliers. To check the reliability of our findings we have looked at the consistency of the interviewees' answers.

We have tried to be as rigorous and impartial as possible, but our findings may suffer from biases. Firstly, since our study is sensitive to what the interviewees remember, our questions and situational factors, our findings may not be replicable. Secondly, our findings may be biased by the transaction being highly successful. Therefore, it is not representative of the population of buy-and-build strategies and should rather be viewed as a "best practice" study. With this in mind, it is also worth noting that it might be difficult to get access to private equity houses when studying an average performing or low performing transaction. Therefore, it is important to interpret case studies together with the findings of quantitative studies.

4 The Case[1]

In this section we present the case in a chronological order, starting in 2011 when The Foundation decided to look for a new partner to lead their company together with. We then look into 2011–2014 Fidelio Capital's entrance into the veterinary care market in 2011–2014, before presenting the value creation during Nordic Capital's ownership (2014–2018). Thereafter, the chapter will conclude with an epilogue.

4.1 Overview of the Industry in Early 2010s

In 2012, the size of the Swedish veterinary care market was SEK 3.6 bn, see Appendix VIII for an overview of the market size between 2000–2018 and average EBITDA margins (SCB, 2021). The market grew 4% in 2012, but the last ten years the growth had been around 10% per year (SCB, 2021). In 2012, there were 780,000 dogs in Sweden and 1,159,000 cats, which is an increase of 8% and a decrease of 8%, respectively, compared to 2006 (Jordbruksverket, 2013). During the same period, veterinary care prices increased 24%. (Jordbruksverket, 2021)

The Swedish market consisted mostly of independent clinics or clusters of a few clinics. The EBITDA margin in the industry was between 13-14 percent on average during the 2000s, but dipped to 12% in 2012. The EBIT margin was on average between 11 and 12 percent, but dipped to 9.5% in 2012. In 2011, Valedo Capital and Fidelio Capital acquired two different platform companies in the veterinary care industry. These platform companies became Evidensia and AniCura.

In 2012, 72 mn European households owned at least one pet, and 24 percent of households owned cats and 24% of households owned dogs (FEDIAF, 2012). The European market consisted also primarily of independent clinics and clusters of a few clinics[2].

4.2 2011: The Foundation is Looking for a Partner

The Greater Stockholm Veterinary Hospital Foundation (The Foundation) was founded in 1969 with the ambition to promote veterinary care in the greater Stockholm Area, with financial backing by the City of Stockholm (The Greater Stockholm Veterinary Hospital

[1]Part of the information disclosed in the section is based on confidential information received from Fidelio Capital and Nordic Capital.

[2]To our knowledge, there are no publicly available estimates of the size of the European market.

Foundation, 2021). At this time, Stockholm had only one veterinary care hospital and the hospital was about to move to Uppsala. To ensure round-the-clock care in Stockholm, The Foundation owned one flagship hospital (today called AniCura Regiondjursjukhuset Bagarmossen) south of the city, and one hospital in the north (today called AniCura Djursjukhuset Albano).

By 2005, Per-Arne Rudbert and Björn Rosén had joined The Foundation as Chairman and Vice Chairman, and had started to think about how the foundation should continue to pursue its mission:

> *We saw problems arising when a foundation was running an organization of this size, and started to look at several strategic alternatives. We organized it so that I became the Chairman in The Foundation and Björn [Rosén] became the Chairman in the operating company [that was running the two hospitals]. Foundations, of this sort, have a couple of special characteristics. One is that there is a huge pride in promoting its sole purpose. Another one is that foundations cannot issue equity. We said that we are probably not going to be able to do this [strategic] transformation [that is needed due to the technical and financial development of the industry] on our own, but would need a partner that could support us both financially as well as with management capabilities. We realised this and made [the] decision [to look for a partner] in 2009, and established a group that would look deeper into this, with Björn as Chairman and some veterinarians*
>
> Per-Arne Rudbert, 03/05/2021

The operating company that was running the two hospitals (and later also a smaller satellite clinic on Gärdet in Central Stockholm) was called Stockholms Regiondjursjukhus. The kind of financial and managerial support that The Foundation was seeking was grounded in the need and ambition to continue professionalizing the organization, rather than to become a nationwide group — the Foundation's by-laws said that their ambition should be to promote animal healthcare in the Greater Stockholm area.

> *The ownership and organizational structure of a company certainly affects a whole lot. [...] [For example] we did not have enough money to hire a procurement manager, we did not have the necessary volume to go straight to suppliers but had to go through agents. We of course had a CEO, and just enough money to hire an HR manager. Money was certainly constraining what could be done operationally in an organization of this size.*
>
> Per-Arne Rudbert, 03/05/2021

Rosén continues:

We did a quite thorough investigation into how we should fit into the new environment. [...] We created this group and went out on the market and scouted the interest for veterinary companies. You could see the similarities with the earlier consolidation of the general practice human care industry, and this was a time when there was a lot of M&A activity in that space. [...] I think we had some 10–12 interested acquirors and quite a lot of meetings. [...] The Foundation's board was kept informed all the time about what was happening in these meetings. [...] In the end, the Board got a liking for Fidelio Capital and Gabriel Fitzgerald

Björn Rosén, 03/05/2021

4.3 2011–2014: Fidelio Capital Enters the Market

4.3.1 Background: Fidelio Capital Overview

Fidelio Capital was founded in Stockholm, Sweden in 2010 by Gabriel Fitzgerald. Prior to founding Fidelio, Fitzgerald had worked with private equity at Nordic Capital for five years, and with M&A at Carnegie Investment Bank before that (see Appendix VI for full biographies of all key persons involved in the AniCura case). Fidelio Capital was founded with the determination that the traditional, active, and professional ownership of the private equity model should be synthesised with a more flexible and entrepreneurial approach of investing, and as such Fidelio Capital define themselves as an independent investment company, rather than a private equity company . As Fitzgerald states:

I claimed back then, and I continue to claim, that we have enough features that makes us different compared to a traditional private equity firm and that we have a longer-term perspective.

Gabriel Fitzgerald, 23/03/2021

Fidelio Capital has in total raised SEK 3,940 mn, divided over two funds (see Table reftab:fcFunds).

Fidelio Capital has an office in Stockholm, and employs 13 people of which 11 are investment professionals (Fidelio Capital, 2021a). Their philosophy is to partner with management teams rather than own the management team. They define themselves as a growth-oriented investor, looking for companies that should be operating in industries with strong secular tailwinds, have strong management teams, and companies that are profitable and growing with either strong organic growth or where non-organic (i.e., growth through acquisitions) is possible. Fidelio focuses primarily on small- and medium-sized businesses, that is companies with sales of EUR 10–200 mn, with equity investments of EUR 10–200 mn. They typically prefer to be the majority shareholders, but have the flexibility to do minority investments as well. The investments are preferably made together with management teams and entrepreneurs, as a way to build incentives. (Fidelio Capital, 2021b)

Fidelio Capital's flexible investment mandate is demonstrated in that to this date, Fidelio has only fully exited one investment (AniCura), and according to Gabriel Fitzgerald:

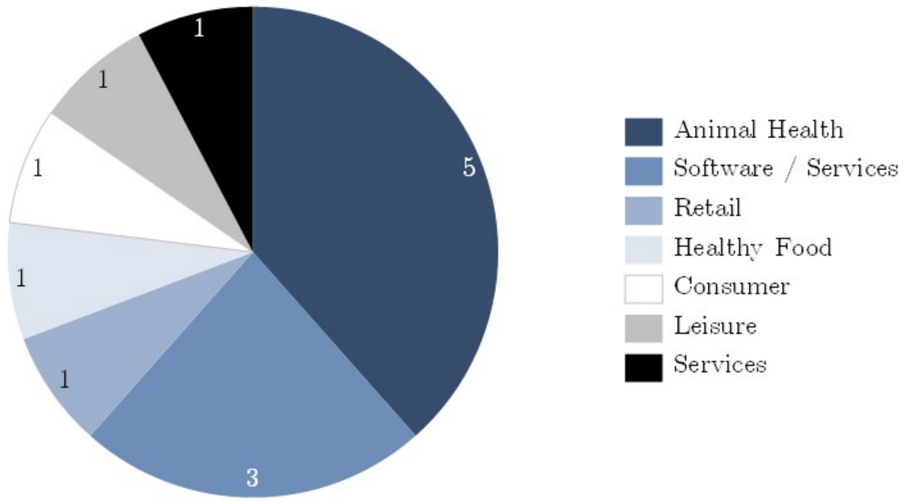
> *The only portfolio company we have fully divested in 11 years is AniCura, in all other companies we have invested in, we still have a stake. We would have preferred to still be an investor in AniCura, but that was not possible.*
>
> Gabriel Fitzgerald, 23/03/2021

Table II
Fidelio Capital Fund Overview and History

Fund	**Closing year**	**Fund size (SEK mn)**
Fidelio Capital I	2010	600
Fidelio Capital II	2018	3,340

Figure I
Fidelio Capital Fund Investments per Sector

The chart shows the total number of investments made by Fidelio Capital, divided per industry.



4.3.2 Investment Decision

As Gabriel Fitzgerald in September 2011 was about to present to Fidelio's investment committee his final reasons for investing in what later became AniCura, he had spent the last year perfecting his investment thesis by educating himself on the veterinary industry. He did this through immersing himself in public material, interviewing veterinarians, and consulting former colleagues in the private equity industry. Fitzgerald was in the midst of negotiating acquisition terms with several veterinary hospitals in Sweden (Stockholms Regiondjursjukhus, Falu Djursjukhus, Västra Djursjukhuset i Göteborg and Växjö Djursjukhus), as he prepared to present why he believed Fidelio should be starting a consolidation wave in the industry. Fitzgerald had identified several attractive market trends and market characteristics.

Firstly, the market for veterinary services was very fragmented — in Sweden, more than 300 limited liability companies were registered as offering veterinary services, and more than 80% of them had revenues of less than SEK 10 mn per year (equivalent to ~EUR 1 mn). Moreover, the market was dominated by a few regional hospitals owned by foundations. Fitzgerald concluded that there were plenty of opportunities to grow inorganically through acquisitions

Secondly, even though there were opportunities to grow through acquisitions, the market had a strong underlying organic growth as well. Between 2006 and 2009, the market had been growing on average 13.5% per year. Fitzgerald expected the trend of growing market size to continue to as more specialized veterinary care procedures, and overall the number of veterinary care procedures, were expected to be able to be offered, and as customers' willingness to pay increased

Thirdly, the fact that the market was fragmented and that many companies were of smaller size, there was potential to perform efficiency improvements. Fitzgerald had identified areas such as procurement and overhead that could be performed more efficient, but also more complex areas such as more efficient use of specialised personnel, which was cost intensive

Lastly, Fitzgerald believed that vertical expansion could be performed in the future, such as creating an own brand of pet food or offering own pet insurances

Even though it was an industry that Fitzgerald had no experience from, he felt that it reminded him of another industry, the traditional healthcare industry:

> *I had studied medicine a long time ago and I worked with healthcare when I was at Nordic [Capital], so when I founded this firm, my ambition was to look at healthcare investments. I know it, it is stable, it has good and positive trends. But, a lot had already been done — there were many big players, not the least Nordic [Capital] with Capio and others — so I did not find a good way in [to the market]. [...] I started to read articles on pet ownership and what struck me was that animal healthcare followed human healthcare, but with a delay. But nonetheless, the type of care humans receive, pets will get too albeit with a delay.*
>
> Gabriel Fitzgerald, 23/03/2021

On November 3, 2011, following successful negotiations with Stockholms Regiondjursjukhus, Falu Djursjukhus, Västra Djursjukhuset i Göteborg, Fidelio Capital issued a press release (Fidelio Capital, 2011), making it official that Fidelio Capital has entered the veterinary market and was aiming to create a leading veterinary group, called Djursjukhusgruppen[3](English: Veterinary Hospital Group). The group at that time employed some 300 veterinarians and nurses, and was expected to provide veterinary care to more than 100,000 patients annually, across 6 locations. The three acquisitions consisted of highly specialised clinics spread throughout Sweden. In particular Stockholms Regiondjursjukhus was a flagship acquisition. It consisted of two hospitals and one clinic that provided care to more than 65,000 patients annually, and had state-of-the-art equipment, including MRIs, an emergency care unit that was open year round, and one of very few blood banks for dogs and cats.

When Rosén, Chairman at Stockholms Regiondjursjukhus, reflects back on the decision to sell to Fitzgerald and Fidelio Capital:

> *Fidelio Capital really had done their research and were incredibly interested in pursuing this [acquisition], to say the least. They might not had all the specialized knowledge [as they were not veterinarians], but they were engaged already from the beginning and we saw them as obvious partners for our future journey*
>
> Björn Rosén, 03/05/2021

At the time of the first mergers in November 2011, AniCura had pro-forma EBITDA of some EUR 2 mn. By December 2013 this had increased to pro-forma EBITDA of EUR 10 mn (5x increase), and pro-forma revenues of EUR 87 mn. See Appendix I for an overview

[3] Djursjukhusgruppen was rebranded to AniCura in 2014, however, we will be referring to the company as AniCura throughout this paper

of AniCura's key financials, and Appendix II for an overview of AniCura's pro-forma key financials.

A couple of months after AniCura was founded, in February 2012, Valedo Partners, a competing investment firm, issued a press release that they too had entered the veterinary market. Valedo Partners founded Evidensia through the merger of five hospitals and ten clinics, spread throughout Sweden (Valedo, 2021). Evidensia quickly became AniCura's primary competitor (and would in many cases be their only competitor).

4.3.3 Value Creation During Fidelio Capital's Majority Ownership

The following section aims to give an insight and overview into the several initiatives that were undertaken during Fidelio Capital's majority ownership. It is not in any sense a complete and fully exhaustive representation of all the possible value-creating initiatives undertaken between 2011–2014.

Finding a CEO Even though there were some central functions at one the veterinary hospitals that Stockholms Regiondjursjukhus' used to own, it became clear to Fidelio that this could not support the planned expansion. The company also lacked a long-term CEO with the right capabilities for the expansion.

> *Valedo sent out a press release in February 2012 saying that they have started to acquire clinics as well. When I read that I was, to be honest, half panicking. I knew I needed a long-term CEO now, now, now. If not, I would have to jump in and take that role myself. Then I heard that Peter Dahlberg was leaving Montagu Private Equity.*
>
> Gabriel Fitzgerald, 23/03/2021

Fitzgerald met up with Dahlberg for a meeting. Fitzgerald had initially thought that Dahlberg would be a great addition to Fidelio Capital. However, Dahlberg had his mind set on an operational role. When Fitzgerald heard about his experiences, and his big passion for animals and pets, he believed that he might have found the right person to lead AniCura. But it would be the first time Dahlberg was the CEO of a larger company. However, Dahlberg had experience from starting and building several early stage companies, including one of the pioneers in online sales of pet products. Most recently, Dahlberg had pursued a financial career as Head of Nordic Region at Montagu Private Equity. At Montagu, he spent a decade building the investment company's presence in the Nordics. He had acquired and led the repositioning of VetXX (now a part of Dechra Veterinary Products) as a board member and the same was true for a number of Nordic businesses such as Unifeeder, Visma and Hansen Protection. Dahlberg's combination of operational, financial and entrepreneurial experience, together with his passion for animals, were deemed to be an excellent fit to lead AniCura as Group CEO.

> *After Montagu, Peter naturally didn't have any plans working operationally as CEO for a company with a handful of clinics. But following a number of discussions we jointly become more and more aware of the vast opportunity ahead.*
>
> Gabriel Fitzgerald, 23/03/2021

When Dahlberg reflects on his decision:

> *I did not have experience from the veterinary industry, but from my entrepreneurial ventures in the adjacent pet industry, and therefore had a few former employees that worked at Albano and Bagarmossen, the two first pet hospitals in the group. From a personal perspective, it was a question whether this could become big enough or remain a too small Swedish consolidation. After analyzing the industry I concluded that this was an incredible opportunity.*
>
> Peter Dahlberg, 29/03/2021

Creating a Decentralized Organization When Fitzgerald started to reach out to the first clinics, he recognized that it would be a challenge to get entrepreneurs and veterinarians to sell their clinics, keep working in the same manner and with the same level of quality, and all of a sudden being told by a finance guy in Stockholm how to run their clinic. From the beginning, the consolidation vision was to create a relatively decentralized group with a centralized support function, but substantial independence in day-to-day activities.

> *I had to sell them on an idea that made sense to them and that they could agree on — I am good at business and building companies. You are good at veterinary care. I can help you develop your company so that you can focus more on doing veterinary work. It has to be a win-win — together we are creating a stronger group. [...] My philosophy built on autonomous clinics with decentralised decision-making. We would not tell the clinics what colour their clothes would have, what drugs they should use or which veterinarian they should refer the patient to. We wanted to focus on the areas where it was obvious that cooperation was better such as administration, HR, marketing and financial reporting. Through cooperation we could create a team that could help all clinics, rather than a veterinarian trying to do the marketing during the weekend.*
>
> Gabriel Fitzgerald, 23/03/2021

Creating an Attractive Culture Fitzgerald thinks that it is easy to overlook the early initiatives when constructing a company. Especially the initiatives that aim to create a culture and an environment that sets the foundation for the future growth of the company:

> *If you really want to understand how you accomplish [to build a great consolidation case], I believe you must understand that part too [about how to set the correct culture]. And that maybe is the hardest part, to be honest. The [relatively] easy part is when [...] it becomes a machinery, like a machine where you are just adding new clinics in a mechanical way. Of course that is happening on a very professional level in order to make it good. It is almost like building a house — if you build a crooked foundation, the end product will be bad regardless of how good you are at building houses. [...] I think it is very easy to underestimate that part and that too many are only focused on the more "industrial" parts because that is more appealing.*
>
> Gabriel Fitzgerald, 23/03/2021

Furthermore, Dahlberg believes that a key factor for failure is lack of structure:

> *If you look at buy-and-build cases, there are many examples that have not succeeded. Often this is due to failures on the operational side, such as poor leadership, at several layers in the organization, and the inability to create a homogeneous culture. But I believe that even for a successful buy-and-build you will not be able to see whether it is truly successful or not from the beginning. It is only after a couple of years that things might start to fall apart.*
>
> Peter Dahlberg, 29/03/2021

AniCura created a corporate culture that helped them improve their reputation compared to other sponsor-backed buy-and-build competitors. This was important since it in some cases gave AniCura the opportunity to buy clinics at lower valuations than other bidders — AniCura was able to create a state where veterinarians valued becoming part of AniCura and its culture.

Also, the AniCura vision built on creating a group of veterinary clinics where veterinarians would wish to rather be on the inside than on the outside. The ambition was to improve employee retention. This was achieved by centralizing back office support, by introducing educational programs and the possibility to specialize as well as much appreciated social events. Fitzgerald explained why this was crucial to the success:

> *When you acquire a veterinary clinic, you basically acquire an office or a lease, and some equipment. Perhaps also customer relations, but they tend to follow the veterinarian. If the employees leave, there is no company left — only a lease agreement and some equipment, but no one to perform the services.*
>
> Gabriel Fitzgerald, 23/03/2021

Nordic Expansion Since the beginning, the ambition was to create a veterinary care group that was larger than just a cluster, according to Fitzgerald. By 2012, AniCura had already established itself in Norway, and Denmark followed quickly in 2013. When reflecting on the quick expansion into the Nordics, Fitzgerald says:

> *There was never any doubt that we would be expanding within Sweden. After Valedo entered the veterinary care market with Evidensia, I believe that sped up AniCura's international expansion, because all of a sudden I felt "we cant lose a country", because if you enter too late and all the important veterinarians have already joined another group, what will be left for you? So at times, it was very stressful and heated.*
>
> Gabriel Fitzgerald, 23/03/2021

However, even though Fidelio had helped the company to find the appropriate CEO that would be able to lead the company through the expansion, it did not mean that Fidelio was taking on the role of a passive investor and just standing by. It was rather the contrary, Fidelio Capital took an very active role in AniCura's expansion and M&A activities and continued to assist in the company's acquisition activities for several years:

> *It was not a form of backstage governing where Fidelio said "here you have the capital, now you do the work." They were very involved the first year until we had built up the appropriate teams to manage everything internally. [...] For instance, Gabriel and I travelled all over Sweden and joked about having visited every McDonalds in the entire country. We knocked on doors and met clinics everywhere to evaluate which clinics fitted into what would later be known as AniCura.*
>
> Peter Dahlberg, 29/03/2021

Fitzgerald stressed that it was not just a matter of buying clinics and believing that you all of a sudden are building a group of clinics that is somehow valued higher than the sum of the parts:

> *I think it is a mistake if you think that you can buy a bunch of clinics and just sell it as a group. If you are just buying a bunch of clinics, you might not be able to understand many other aspects — whose clinic are you buying? What? How? Who is this person [that is running the clinic]? How do you motivate them? I believe it is the ability to be thinking several steps ahead that is important and that if you are only focused on the financial aspects, that you will definitely risk going wrong.*
>
> Gabriel Fitzgerald, 23/03/2021

That being said, AniCura did not expand without getting across problems, both cultural and reputational. Our interviewees emphasize that the veterinary market is different from other industries. Veterinarians are recognized by their high level of education, integrity and passion for the patients. Fitzgerald describes the profession as a lifestyle rather than an occupation. Therefore, who the veterinarians work for is very important. The importance of this can be illustrated with the issues AniCura faced when they expanded to Norway. The first acquisition was of a cluster of six clinics that had been founded by a business man, not a veterinarian. Some people in the veterinarian community had come to get the impression that the cluster was founded on pure financial motives, with little care for the trade and the patients. Following this flying start, as Fitzgerald thought it was in the beginning, AniCura faced problems with acquiring other clinics. While Evidensia acquired clinics in Norway, AniCura was not able to close any more deals. Fitzgerald understood that something was wrong, but could not figure out what it was. Then a veterinarian in Bergen, Norway told him:

"I believe in your vision so I will be honest. You bought [that cluster] which is a very business-minded cluster that some other veterinarians dislike. This will become a problem for you. We think that we can help you, but then you need to change the message."

She agreed to be the new spokesperson and front figure of AniCura in Norway. When the message was changed from a business perspective to the AniCura vision, AniCura was able to gain momentum and a good reputation in Norway. This also showcases one more important thing that has been mentioned before — the importance of *culture* in AniCura's early success.

Looking for a New Partner By early 2014, Fidelio Capital and AniCura made the decision that they were going to start looking for a new partner that could join them in building up AniCura. When Fitzgerald reflects:

> *It probably would have been different if it would have been today [as Fidelio is a larger company], but we saw a big opportunity to enter Germany for example, as well as other countries such as France. Our view was that we then would need a partner with deep pockets such as the larger Nordic private equity firms.*
>
> Gabriel Fitzgerald, 23/03/2021

Dahlberg continues:

We would have been able to continue to build AniCura in the way we did with Fidelio, but there were two main reasons why we thought that it would be wise to bring in a partner. Firstly, we were growing so quickly that we sort of became a little too big for Fidelio and secondly, there were benefits in bringing in a new partner with new perspectives and more experience in working with larger, international companies.

Peter Dahlberg, 29/03/2021

Both Fitzgerald and Dahlberg however stress that they were looking for a *partner* to join, and not an owner in the traditional sense:

With partner I mean someone that is receptive and engages in a dialogue, as opposed to someone who just gives commands. I built a team of very driven individuals that, just like me, perform better when they are allowed to think for themselves and form their own agenda. One of the reasons AniCura became so successful was our open and transparent communication and rewarding relationship with our owners, that was a partnership rather than an owner-employee relationship.

Peter Dahlberg, 29/03/2021

4.4 2014–2018: SBO and Nordic Capital as New Partner

Once Fidelio Capital and AniCura had decided that they would benefit from finding a new partner, things moved quickly:

It felt pretty natural for me to call my old colleagues at Nordic Capital who I know are good at healthcare investments. But in order not to let them be the only bidder, I also called [one of their main competitors]. We told them "this is what we want to do, we probably need a partner that has a lot of money, we need to have a sizable ownership left, and this is the price... who is the first one that can make it work?" It took Nordic Capital four weeks.

Gabriel Fitzgerald, 23/03/2021

By June 2014, Nordic Capital had completed their investment in AniCura and a press release was issued (Nordic Capital, 2014). Nordic Capital invested EUR 109 mn for a majority investment in the up-and-coming veterinary company. At the time of the investment, AniCura was present at 60 locations in three countries (Sweden, Norway and Denmark), had LTM pro-forma revenues of EUR 99 mn and adjusted LTM EBITDA of EUR 11 mn (i.e., an EBITDA margin of 11%).

Dahlberg means that the private equity owner one chooses to partner with is essential, and that it many times is underestimated what kind of difference it makes:

> *Every private equity firm is unique, so I think it is wrong to think "private equity firms, they do this and that, and they play this specific role..." It is just as wrong as saying that all CEOs are the same. All CEOs are different and different personalities fit in different phases of a company's life. It's the same with private equity firms. Fidelio Capital were great for us in the beginning — we had a close collaboration, we used their resources, decision making was incredibly fast, there were no cumbersome administrative processes, focus was only on what needed to be done at that very moment. But during those 2.5 years, we grew to a different type of company with operations in multiple countries, and with other needs than we had before. We needed less of a detailed operating sounding board and more of a strategic challenge. More focus was on strategy, unleashing full potential, financing needs, next wave of recruiting and operational needs, and this is where Nordic Capital entered the picture. It was an appropriate time for us to partner with Nordic Capital, but it would have been too early when we were founded. We were too small and needed a different type of partnership, in a phase where everything was focused on putting a solid business together with fires everywhere and not always too much time on reporting and admin.*
>
> Peter Dahlberg, 29/03/2021

In September 2014, three months after AniCura had a new partner, EQT had entered into an agreement to acquire Evidensia from Valedo Partners (EQT, 2014). By that time, Evidensia had expanded their operations to 90 locations across four countries (Sweden, Norway, Denmark and Finland). With the backing of EQT, Evidensia was once again positioned to compete with AniCura.

4.4.1 Background: Nordic Capital Overview

Nordic Capital was founded by Robert Andreen and Morgan Olsson in 1989. With financial backing from Skandia Life Insurance and Svenska Handelsbanken, Nordic Capital Fund I raised EUR 55 mn (Nordic Capital, 2021a). Today, as of May 2021, Nordic Capital has raised 10 funds and one continuation vehicle, with a total value of close to EUR 23 bn. The firm has invested in more than 120 companies since its inception. See Table III. Nordic Capital has 155 employees, spread out through nine offices (of which eight are in Europe, and one in the US). Further, Nordic Capitals portfolio companies employ some 62,000 people (Nordic Capital, 2021b).

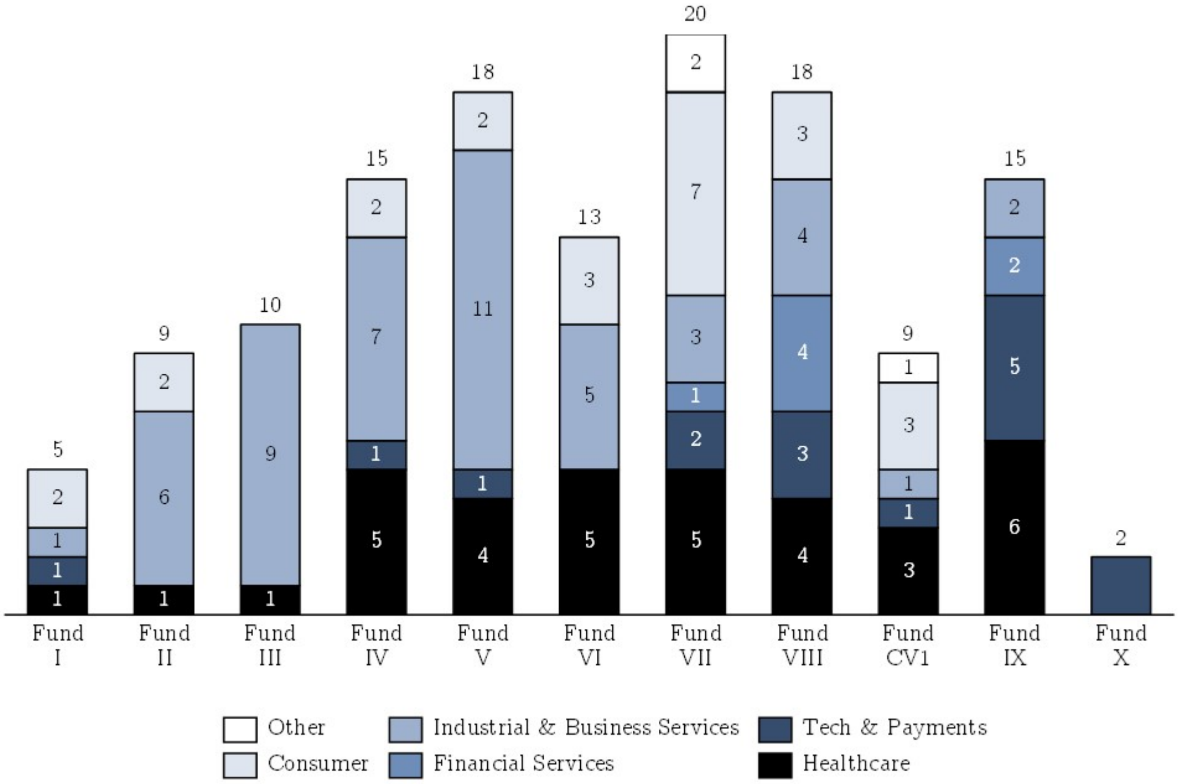
Table III
Nordic Capital Fund Overview and History

Fund	**Closing year**	**Fund size (EUR mn)**
NC Fund I	1990	55
NC Fund II	1993	110
NC Fund III	1998	350
NC Fund IV	2000	760
NC Fund V	2002	1,500
NC Fund VI	2005	1,900
NC Fund VII	2007	4,300
NC Fund VIII	2012	3,500
NC Fund CV1	2018	2,500
NC Fund IX	2018	4,300
NC Fund X	2020	6,100

Nordic Capital today focuses mainly on four sectors: Healthcare, Tech & Payments, Financial Services, and Industrial & Business Services. Historically, the firm has also invested in the Consumer sector (Nordic Capital, 2021c). See Figure II for an overview of Nordic Capital's investments divided by sector.

Figure II
Nordic Capital Fund Investments per Sector

The chart shows the number of investments per fund, as well as investment per industry. Nordic Capital is currently investing in Fund X.



In sourcing investments, Nordic Capital strives to track businesses for several years before investing, proactively building relationships with various stakeholders, and they try to negotiate deals on proprietary and exclusive terms. Furthermore, focus is on capitalizing on structural or trend shifts, rather than being reliable on macro trends or the state of the economy cycle (Nordic Capital, 2021d).

Once Nordic Capital has invested in a company, they have key processes in order to achieve "ownership excellence". They have an in-house *Operations* team with deep industry knowledge and experience that can support the portfolio companies. Further, other in-house resources can help with management assessment and recruitment. The portfolio companies also can get access to their wide network of >100 industrial advisors. The firm also promotes cross-portfolio initiatives, so that value from e.g., procurement and digitalization, can be shared across the portfolio companies. Lastly, best-practice governance is introduced, with a dedicated focus on sustainability governance (Nordic

Capital, 2021d).

4.4.2 Investment Decision

Nordic Capital had followed the veterinary market for years before they finally invested in AniCura in 2014. Nordic Capital concluded that several factors made the market attractive from an investment standpoint. Firstly, the veterinary market was deemed to experience strong secular growth. The market had developed and there was a strong and growing demand for specialised veterinary care as illustrated by double-digit market growth.

Secondly, they had identified the market for specialised veterinary care to have low exposure to market cyclicality due to its critical nature, that is ensuring a strong and stable demand from the end-market. Humanisation of pets has been an undergoing trend in society, and has been one of the driving forces of increased demand for advanced veterinary care.

Thirdly, not only did Nordic conclude that there was a consolidation opportunity in the market, but that creating a leading group could create sustainable competitive advantages due to positive network effects from operating multiple clinics in a geography. Nordic Capital recognized that veterinary specialists took significant pride in working with other veterinary specialists and working for a market leader. As such, acquiring a substantial part of the specialists early on, would automatically make that specific group a choice for many other clinic owners that wanted to sell their clinic.

Furthermore, they had identified AniCura as the suitable vehicle for that market entry, for several reasons. Nordic Capital had been following AniCura since 2011 and had come to develop strong relationships with both Fidelio Capital and the management of AniCura. Furthermore, they identified AniCura to be the market-leading player with an outstanding reputation in the Nordic region, thanks to their strong culture and quality of service. This, they believed, would enable further buy-and-build potential in a very fragmented market, not only in the Nordic, but in the rest of Europe as well. AniCura's existing customer base resulted in a strong downside protection. Fidelio Capital and AniCura had focused on acquiring clinics with a high degree of specialisation and a strong reputation in the market. This had led to AniCura having a strong customer base with a stable demand for specialised veterinary services.

Moreover, Nordic, just as Fidelio, felt that the veterinary market reminded them of a traditional healthcare investment. The value creation themes, in this case relying on buy-and-build strategies combined with operational improvements, were similar to prior investments made by Nordic Capital (e.g., Unilabs and Capio) and the market dynamics were similar. One important difference between healthcare in general and veterinary care is that the veterinary care market is less regulated and with free pricing. Given NC's lengthy and substantial history of investments in the healthcare sector (28 healthcare investments since 1991, amounting to EUR 6.7 bn of capital deployed), they felt comfortable in investing into the market and could come up with a relevant value creation plan for the investment.

Nordic Capital had identified three main areas for value creation. The first one was *People and Performance*. Nordic Capital would appoint a new board with experienced directors. Moreover, Nordic would make sure that new management positions would be recruited and that the overall management team would be widened. This included the recruitment of a new CFO and creation of an in-house M&A team that could be handling the planned European expansion.

The second value creation area was *Buy and Build*. The M&A pace would be accelerated and the work would be professionalized to cater for a European-wide expansion.

The third value creation area was *Operations*. Nordic Capital recognized the potential in significant procurement efficiencies and other cost reduction, as well as the need for an overall professionalization of the company and its operations in order to support the M&A growth. Moreover, more professionalized operations could be translated to quality of service.

4.4.3 Value Creation During Nordic Capital's Majority Ownership

The following section aims to give an insight and overview into the several initiatives that were undertaken during Nordic Capital's majority ownership. Analogous to section 4.3.3 Value Creation During Fidelio Capital's Majority Ownership, it is not in any sense a complete and fully exhaustive representation of all the possible value-creating initiatives undertaken between 2014–2018. Furthermore, we have mainly chosen to present initiatives led by either AniCura themselves or by Nordic Capital, as a way to demonstrate what Nordic Capital brought to the table once they had invested in the company. However, Fidelio Capital continued to act as an active investor, even though their interest in the company had transformed to a minority investment:

> *It was pretty obvious that [the AniCura deal with Nordic Capital] was supposed to be a partnership, who was owning more did not matter. We were doing it together, they came in and we stayed. They had a larger share, but we were doing it as partners. That I think is something that Nordic Capital honoured very respectfully. They were not like "it is time for you to sit in the passenger seat", but rather they, and especially Thomas Vetander, were making sure to always call before important decisions needed to be made and discuss with us. It was something that was very comforting.*
>
> Gabriel Fitzgerald, 23/03/2021

Continued Geographic Expansion Nordic Capital, just as Fidelio Capital, viewed their investment in AniCura as an expansion case already in the beginning. In fact, Nordic Capital viewed the investment in AniCura primarily as a vehicle for further European expansion:

> *The case for us was of course continued consolidation in the Nordics. However we did acquire the company because we saw it as a platform to go out in Europe. We have a playbook with several parameters that we find important when doing a buy-and-build. When we looked at AniCura, we saw a great performance, lots of potential in the Nordics and Europe, and more. As such, it was a great opportunity for private equity. However, the company was, by our measure, still very immature.*
>
> Thomas Vetander, 25/03/2021

Nordic Capital saw enormous potential in large European countries such as Germany and France. The general perception of clinic ownership had also started to shift, e.g., there were regulatory easements in Germany that now enabled non-veterinarians to own clinics. By 2015, AniCura had established a presence in Germany, Austria, and the Netherlands. In 2016, the first clinic in Switzerland was acquired. By 2018, this presence had extended to also include Italy, Spain, and France. See Appendix III for the number of clinics per year between 2012–2018, Appendix IV for the average number of employees between 2011–2017, and Appendix V for the revenue distribution between the different geographies in 2017.

The case for expansion was primarily motivated by three factors. Firstly, the Swedish and Nordic markets were not big enough to finance the improved conditions that nurses and veterinarians received. Secondly, having many specialized veterinarians also meant that the knowledge base within the company would expand and become distinguished — this could create sticky effects as the ability for veterinarians and other employees to further educate themselves would be unparalleled compared to other institutions. Thirdly, there was a first-mover advantage as AniCura then could have the first pick of the best veterinary clinics and hospitals. There are a limited number of flagship clinics in every country, and acquiring these clinics early is very important to get access to other clinics according to Nordic Capital and Thomas Vetander, as it sets a precedent:

> *When entering a new geography, Peter and the team spent a lot of time convincing the most well-regarded clinics to join AniCura. These clinics then acted as door openers to the rest of the market.*
>
> Thomas Vetander, 25/03/2021

Moreover, the first-mover advantage also extended to the ability to enter the market more cheaply. Once a market is consolidated it is difficult to enter on low valuation multiples, as was the case in Finland[4]. However, just as Fitzgerald had stressed during Fidelio Capital's majority ownership, quality went over quantity. Also, what more and more became apparent was that as the organization was growing larger and larger, the governance of each clinic had to become more clear and any succession issues (many times the former clinic owners could be near the pension age and saw the opportunity to sell to AniCura as an early exit retirement) had to be solved early:

> *Most of the 200 clinic acquisitions that happened during our ownership were successful but of course not all of them. Of the ones that were less successful there was always an HR issue that was the cause, e.g. an experienced vet that decided to leave. The profitability of a clinic can deteriorate quickly and what looked like an attractive valuation can quickly turn into a headache. On the other hand some of our best acquisitions were relatively expensive, as high as 20x [EBITDA], but with rapid growth they can still quickly become very accretive.*
>
> Thomas Vetander, 25/03/2021

Furthermore,

> *While we wanted to expand AniCura it was always more important to grow the company right than to grow fast. Staying true to its values and only bringing in clinics that share these values is critical to achieve long term success.*

[4]Finland, a market that AniCura never entered and as such is not being discussed in any greater detail in this paper, experienced a consolidation early on. Fidelio Capital and AniCura decided early on that the market was not attractive enough to enter into.

Thomas Vetander, 25/03/2021

Additionally, in an unconsolidated market it was also easier to avoid auction processes. AniCura was often able to have negotiations on an exclusive or semi-exclusive basis:

> *It was not clear who you would call if you wanted to sell your clinic so people brought their accountant. It might have changed by now since it tends to develop when the M&A market becomes more mature. For instance if you look at the American veterinary market, brokers are much more common.*

Richard Riboe, 23/04/2021

However, the reason that AniCura was able to enjoy exclusivity and as such, many times could pick and choose, was not only due to being first-mover, but rather due to the reputation that they had been able to build up in the veterinary community:

> *Veterinarians that worked at AniCura were happy and recruited veterinarians they knew*

Thomas Vetander, 25/03/2021

Setting up Incentive Programs Recognizing the need to align incentives for the people at AniCura, and not only the management, Nordic Capital and Fidelio Capital introduced two incentive programs - the Management Incentive Program (MIP) and the Co-Investment Program (CIP). The MIP was a program that allowed top management to acquire a mix of shares in AniCura with a high proportion of common shares which acted as a lever for the returns[5]. If things went well for the PE fund, the MIP return would be very high, but if the returns for the PE fund were bad or just mediocre, the MIP returns would quickly approach 0%. As Riboe put it:

> *MIP is something we have in all our portfolio companies and it looks very similar [across the companies]. It is an incentive program for management with the purpose that if the investment is good for the private equity owner, then it should be a really good investment for management. The same holds for the opposite scenario.*

Richard Riboe, 23/04/2021

[5] A typical equity structure in a private-equity owned company with a MIP, is to have a mix of preferred shares (who have first claim on the equity returns, and whose value increases at a fixed rate over time) and common shares (whose value is the residual after holders of preferred shares have been paid). That way, the non-linear pay-off structure for common shares becomes very steep, since all the return above the preferred share rate, goes to holders of common shares (Ljungqvist and Richardson, 2003).

Moreover, other employees that were not part of the management could also invest in AniCura through the CIP. This is something that is not very common for companies owned by Nordic Capital, but Nordic chose to give everyone the possibility to invest in AniCura. The terms of the program was *parri passu* with the private equity firms, i.e. they were not geared as the MIP shares. In addition, the co-investment program helped to hold the group together:

> *AniCura was a very decentralized organisation. The CIP was a part of creating a sense of unity and belonging. It was important that the employees were shareholders to keep the group together despite that many employees mostly worked with the people at their local clinic. But it was of course necessary to do more than just the co-investment program.*
>
> Richard Riboe, 23/04/2021

Other than introducing incentive programs that were aimed to create a sense of inclusiveness, earnouts[6], or performance-related payments as it was known as well, was a widely used tool in the M&A agenda. It was a tool that could be used for e.g., ensuring that the former clinic owners were incentivized in making sure that a succession plan was successfully put in place and executed on. Those who sold clinics could also choose between a cash-payment or a mix of shares and cash. The latter would also align the incentives between the previous owners and the AniCura group.

New Organizational and Governance Structures In the beginning, all clinics reported directly to the CEO. According to Peter Dahlberg, this was important in the early days to make sure all clinics had a direct line to the CEO, to accelerate the forming of a joint culture and to detect potential problems. The structure continued until AniCura consisted of around 65 clinics (around late 2014). Then, the organizational structure was close to becoming "undoable". At that point in time, Peter reorganized the structure and introduced another layer of management with a head of each country. In countries with a lot of clinics, such as Sweden, a regional management level was also introduced.

An important part of value creation in a buy-and-build is the spread of best practices. When the group grew to a considerable size, a new layer of business area managers was created. The business area managers were responsible for dialogue with a cluster of clinics.

[6] An earnout is a promise on a future payment, in addition to the upfront payment that a former clinic owner receives. Earnouts can be conditional upon achieving a predefined goal. In AniCura's case, the most common conditions were either tied to achieving some level of revenues or profits, or securing the succession of a clinic.

Often, best practice measures were tested in pilot projects. If successful, the business area managers spread the learnings to other business managers, who would bring it to the clinics.

> *It was not huge changes, but small tweaks in how the clinics worked. It is easier to spread the learnings to four other business area managers and brief them, than to contact each individual clinic.*
>
> Richard Riboe, 23/04/2021

One example of a pilot project was when AniCura discovered that several clinics were not able to bill the customers for all the performed services. Therefore, pilot clinics tried different approaches to ensuring that all the services were billed. The best practice was spread to other clinics through the business managers, which was deemed as a more effective way than total decentralized information channels.

Furthermore, Nordic Capital and Fidelio Capital supported the management through the board structure. The board consisted of representatives from the owners, i.e. Fidelio, Nordic Capital and the Foundation, and industrial experts. In the beginning, Katarina Martinson, main external investor in Fidelio Capital, was the chair of the board until Kristoffer Melinder, Managing Partner at Nordic Capital, took over. Later, Paul Hökfelt (former CEO of Capio) became the new Chairman of AniCura, a position he held for most of Nordic Capital's ownership period. An example of a board member with industrial experience is Gennar Nemeth who was appointed when Fidelio was the main owner. He is a professor in orthopedics and the former CEO of Capio.

The management was also supported by other successful CEOs. Nordic Capital put Peter Dahlberg in contact with the former CEOs of Capio, Attendo and Unilabs. These companies were all successful buy-and-build cases in the healthcare industry.

Building the Headquarter Functions An important part of the value creation plan was to centralize back-office tasks to help veterinarians focus on their core tasks. When Nordic Capital bought a majority stake in AniCura in 2014, they essentially bought a growth case with a couple of centralized functions.

> *The largest risk and worry was that the platform still was immature compared to the size of the revenue. They were a little behind regarding building the headquarter function, compared to the companies we normally invest in.*
>
> Thomas Vetander, 25/03/2021

Some of Nordic Capital's core competences are to build support functions such as the accounting department and purchasing organization through recruiting the correct talent. To hold the group together, AniCura pursued a unified brand strategy where all clinics and hospitals had the same graphic profile. However, AniCura steered away from manuals and rather spread best practices through relationship-based governance. After Nordic Capital entered the company, a new CFO and M&A director was hired and purchasing was coordinated. Dahlberg emphasized Nordic Captial's educational programs:

> *Nordic Capital had an incredible procurement function that we would benefit from. They also had educational programs for senior management; in marketing, digitalization, communication, purchasing and finance. In the beginning we would also learn from Nordic Capital's more mature portfolio companies. Later, when we had grown, we would share our learnings with newer portfolio companies.*
>
> Peter Dahlberg, 29/03/2021

One of the challenges with AniCura was prioritizing initiatives. According to Nordic Capital there was an endless list of things to do. The platform bought new clinics all the time that needed to be integrated in the group. Examples of initiatives were coordination of IT systems, call centers, booking systems, digitalization, which countries to enter and planning for the future.

> *Our internal playbook with important KPI is especially important in a buy-and-build strategy. We have suggestions to what initiatives should be prioritized and it is our "how to" blueprint. Hence, we enter the company with momentum and suggestions to the management.*
>
> Thomas Vetander, 25/03/2021

Furthermore,

> *Every initiative and 20 more are super exciting. It is easy to make a list of 45 things to do, but then the management will not have the energy or the time to deliver on any of them. We were forced to reduce the list and think about the most pressing issues the next six months. If there was time, we could focus on the other tasks.*
>
> Thomas Vetander, 25/03/2021

4.4.4 The Controversy Regarding Pricing

There has been an ongoing debate regarding the prices of veterinary care services following the consolidation of the market (see Appendix VII for an overview of the price development between 2005–2017 of veterinary services in Sweden). Therefore, in 2018, the Swedish Competition Authority studied the industry and released a report "Bättre konkurrens om fler byter djurförsäkring" (English: Better competition if more pet owners change their pet insurance). The insurance companies claim that veterinary services have become more expensive after AniCura and Evidensia entered the market in 2011. During the same period there has been an increase in the number of pets and more veterinary services are consumed per pet, according to Leif Nordqvist. Also, the standard of veterinary care has increased since human-care procedures become available to pets at a later stage. "Veterinary clinics and hospitals nowadays, do procedures that were not available to pets ten years ago" (Leif Nordqvist, 21/04/2021).

One aspect that the Swedish Competition Authority has noted, is that there is low price transparency in the veterinary care industry. According to Leif Nordqvist, there are no good price comparison sites which should be doable for simpler procedures. A pet owner does not know the price before going to the clinic and/or hospital since it is determined by the needed treatment. Also, the prices vary between for instance the local clinic and evening/weekend emergency at a hospital. After the consolidation wave, almost all the larger veterinary hospitals in Sweden are owned by either AniCura or Evidensia.

According to Leif Nordqvist, the consolidation can have affected the price development. The private equity firms acquired existing clinics with established customer groups, making it easier for them to increase prices (Leif Nordqvist, 21/04/2021). Despite this, the Swedish Competition Authority has not received any complaints from clinics that their ability to operate in the market has been affected by the consolidation.

> *Veterinary services have become very expensive. But price increases are not per se a competition question. In many cases, it is a consumer question.*
>
> Leif Nordqvist, 21/04/2021

According to AniCura, price increases were not a central part of the value creation strategy:

> *We saw that improved pricing had the potential to create value, but it was not a priority during Nordic Capital's ownership. We had such a good organic growth anyways and saw better opportunities in M&A, building the group and corporate culture.*
>
> Richard Riboe, 23/04/2021

When Dahlberg reflects on the media attention that was created regarding price increases, he thinks that the reason this became such a large topic in recents was due to the entrance of private equity:

> *This is an old discussion that has been going on for the last 20 years. The insurance companies of course always want to work against price increases, which was not new. What was new though, was that all of a sudden there was someone they could blame for the price increases — the private equity companies.*
>
> Peter Dahlberg, 04/05/2021

Furthermore, he means that some actors in the insurance industry painted a non-complete picture of the situation and did not take into consideration the overall developments that had happened in the industry:

> *We showed that general price increases were between 1–3% per year, and that was in line with how it has been historically. Then there were technological advancements that changed the way we conducted care — instead of opening up a whole body to perform a surgery, we could perform laparoscopy. We went from older and less good care, to newer types of care. There are of course costs associated with that — new equipment is needed as well as training of personnel.*
>
> Peter Dahlberg, 04/05/2021

4.5 2018: Exit and Epilogue

On June 11, 2018, a press release was issued, announcing that Mars and Nordic Capital had agreed on sale terms whereby Mars would acquire 100% of the shares in AniCura (Mars, 2018b).

At the time, the exit represented the largest ever veterinary deal in Europe and the second-largest worldwide. Although very few terms of the deal have been officially disclosed, the transaction came to represent Nordic Capital's third highest money-on-money multiple and fifth highest capital gain since inception (Nordic Capital, 2021e). Moreover, Nordic Capital was awarded the "Deal of the Year" prize by Real Deal (Nordic Capital, 2021e), and the Operational Excellence Award by Private Equity International (Nordic Capital, 2019). Further, Fidelio Capital earned a more than 10-fold return on their investment (Bloomberg, 2018).

The deal closed on November 27, 2018, after an antitrust clearance from the European Commission, subject to a divestiture of the procurement business unit VetFamily (Mars, 2018a). Since Mars took over, AniCura has grown from 250 clinics to 350 clinics by May 2021 and is now present in Portugal and Belgium as well. The message from Nordic Capital and Thomas Vetander at the time of the transaction still very much holds — the consolidation in Europe is still far away from being completed and there are still many operational improvements that can be exploited.

AniCura would have been sold at some time since it was owned by private equity firms. However, according to Dahlberg, it was not planned for such an "early" exit:

> *[Mars] knocked on the door and said "we have taken a strategic decision that we want to become the world leader in veterinary care and as such we want to buy a platform in Europe. There is pretty much only one platform that fits us well. We know that you are not up for sale and that [Nordic Capital] want to continue on for a couple of years, but we don't want to wait. We want to buy you now and we are willing to pay the price we believe you would be able to get in a couple of years".*
>
> Peter Dahlberg, 29/03/2021

When reflecting on the different types of owners that AniCura had during its lifetime, up until it was sold to Mars, Dahlberg says:

> *It is interesting. Nordic Capital would not have been able to start off with AniCura where Fidelio did, and Mars would not have been able to acquire AniCura when Nordic Capital did. There is a time for every type of owner. We would have been able to continue with Nordic for 3, 4, 5 years more, and then it would have been pretty clear that it was time for new ownership. Mars is in some way a final destination for AniCura, and they seem a very good owner for the company.*
>
> Peter Dahlberg, 29/03/2021

He continues:

> *I think that when AniCura was sold to Mars in 2018, it was such a mature company that it would not have mattered too much who owned it, but prior to this it was very crucial for the company's success who was in senior management positions and and who owned the company. There are numerous examples where either owners or management have not been the right fit, and how that detrimentally affected the company.*
>
> Peter Dahlberg, 29/03/2021

5 Discussion

In this section we will discuss our research questions in relation to the findings of our study and the current literature, as presented in the literature review.

(i) How was value created in the buy-and-build case AniCura?

A buy-and-build strategy starts with the private equity house acquiring a platform company which is used to acquire small targets and thus, consolidating the market (Døskeland and Strömberg, 2018). According to our case study, one of the main reasons why the veterinary industry was so fragmented in 2011, was that there was no cluster of clinics big enough to serve as a platform company. Therefore, it can be argued that part of Fidelio's value creation was to create a platform company that was big enough to partner with one of the larger private equity firms. When Nordic Capital acquired the majority of AniCura, they purchased one of the largest clusters of veterinary clinics in the Nordics. Thus, Nordic Captial's ownership follows the findings of Hammer et al. (2017), which suggested that buy-and-build strategies are more frequent when the platform company is large and has add-on experience from the previous sponsor.

When Fidelio Capital became the majority owner of AniCura, through a merger of Stockholms Regiondjursjukhus, Falu Djursjukhus, Västra Djursjukhuset i Göteborg, there were very few M&A transactions in the veterinary industry. Fidelio served as the M&A arm of the AniCura group until Nordic Capital became majority owner. Then, AniCura built their M&A organization which towards the end of the private equity ownership period functioned as a "continuous M&A and integration machine", according to our interviewees. This is in line with the findings of Hammer et al. (2017) which suggested that private equity firms improve the M&A skills at the portfolio firm.

According to Bansraj et al. (2020), a buy-and-build strategy is a hybrid between a traditional LBO and a strategic buyer. A buy-and-build strategy focuses on the long-term synergy focus from strategic buyers to realize operational synergies. One explanation of the returns generated by AniCura might thus be operational synergies. The private equity houses focused on value creation through centralizing tasks such as marketing, financial reporting and HR at the headquarters. Another part of the value creation was the centralization of purchasing to receive better prices. We think that this is in line with the findings of Archraya et al. (2013), that GPs with accounting and banking experience perform well in M&A-based buy-out strategies, while GPs with consulting experience perform well in operational-improvement buy-out strategies. The decision makers in the AniCura deal had both consulting and banking experience, see Appendix VI, which can explain why AniCura was successful in both integration of acquired clinics and operational improvements.

In addition to operational synergies, the private equity houses created value through operational engineering. Through the spread of best practices, the group increased productivity by for instance ensuring that the clinics billed for all the services they offered. This is in line with the findings of Davis et al. (2014) which suggested that private equity houses accelerated the introduction of productive initiatives and the removal of non-productive initiatives. In addition, AniCura was primarily focused on acquiring clinics with a high degree of specialization, and thus built a network of specialized veterinarians. As a result, according to our interviewees, AniCura was able to offer a distinguished value offering compared to the average veterinary clinic or hospital.

Our findings also suggest that the private equity houses created value through improved governance structure. For instance, the private equity houses introduced share-based incentive programs for the management and the employees to align incentives, in line with the findings of Gompers et al. (2016). Acharya et al. (2009) found that the board of sponsor-backed firms play a larger role in strategic decisions than the boards of public firms. Our findings also suggest that the board played an important role in strategic considerations. In addition, the private equity houses might have created value through a more flexible form of ownership than a foundation.

The private equity firms, together with the management also improved the governance structures within the group. In the beginning, all clinics reported directly to the CEO, which became impossible when the group grew. Then, country managers and area managers were introduced. The area managers, referred to as business managers in the case, created value through being incremental in the spread of best practices. Furthermore, they played an important role in detecting problems early. Hence, the improved governance structures within the group can have created value.

Even though our interviewees emphasised that financial engineering was a minor part of the value creation, our case study suggests that it played a substantial role. Firstly, the private equity houses used substantial leverage to gear the results and finance acquisitions, see Appendix I. Secondly, most of the processes were somewhere between a proprietary process and an auction. The clinics were usually advised by their accountant. On one hand, the lack of professional sell-side advisors might have contributed to a lower price. On the other hand, there were often at least one other bidder, which would increase the price. Thirdly, AniCura was in many cases able to acquire clinics at lower multiples than the group was later valued at. Although this can indicate multiple arbitrage, the argument has some weaknesses. An important part of the value creation in the case study was to hold the networks of clinics together through a unified identity. Therefore, AniCura could have been less successful if it was treated as only a "financial play". Also, it can be misleading to compare the multiples of the clinics AniCura acquired to AniCura's value in 2018. Our case study suggests that Fidelio Capital and Nordic Capital were prepared to hold the company for longer since there were still room for improvements. Consequently, Mars Petcare acquired AniCura before the private equity houses had planned to sell and likely paid a premium to compensate for potential future value creation.

There has been an ongoing debate regarding the price development following the consolidation where pet insurance companies have claimed that AniCura and Evidensia increased the prices. The horizontal merger literature has focused on whether the value creation from the merger stems from decreasing competition or operational synergies (Eckbo, 1983).

One of the drivers behind the roll-up-strategy was to include as many different veterinary specializations as possible in the group. Then, there would be more cross-selling since the clinics could refer patients to add-on treatments within the group. This could potentially alter the competition since sales would be limited to the market leading AniCura group. However, as the group followed a decentralized approach, vets were free to refer patients to vets outside of the group. Also, we found through our case study that the focus was not on price increases. It is important to note that the focus of this case study has been on the company and its owners, not customers, competitors or suppliers. Thus, it is difficult to use this case study to assess how the competition was affected.

When it comes to the operational synergies, there are several reasons why it is difficult to identify and quantify the value of the synergies realized by AniCura. Firstly, as we only have access to yearly financial statements, it is hard to quantify the cost reductions or organic sales growth from an outside perspective. Since AniCura acquired several clinics every year, in addition to growing fast organically, we have not been able to isolate the value of the synergies. Secondly, as the acquired clinics in many cases were much smaller than the group, identifying the synergies can be like “looking for a needle in the haystack” (Eckbo, 2014: 67).

(ii) How did the secondary buyout create value in the buy-and-build case AniCura?

In our case study, we found that the primary buyer and the secondary buyer can play different roles in the value creation in a company and add value in different stages of a buy-and-build case. As discussed earlier, when AniCura was established in 2011, the platform was too small for Nordic Capital to enter the veterinary market. After Fidelio had made about 60 add-on acquisitions, the platform became big enough for Nordic Capital. At that point, Nordic Capital looked at the investment as risky since it was smaller and more immature than their average portfolio company. This can shed light on an important difference between smaller and larger private equity firms and their roles in value creation. As private equity firms have restrictions on how many platforms they can have in one fund, they have to acquire firms with a size proportionate to the fund size. Therefore, to start the consolidation of an extremely fragmented industry, a private equity house with smaller funds might be needed. In that case, the smaller private equity houses might have other capabilities than the large buyout funds. In the case of AniCura, Fidelio Capital created value through rapidly building a group from scratch, while Nordic Capital created value through improving the back-office support, M&A organization, purchasing and by providing capital for the European expansion. This is in line with the findings of Degeorge et al. (2016).

Arcot et al. (2015) found that one driver of secondary buyouts is that either the buyer or the seller is pressured to exit/enter an investment. If one of the parts is pressured, SBOs have been found to be associated with lower IRR (Arcot et al., 2015). This seems not to be the case in the secondary buyout of AniCura. Firstly, Fidelio Capital is not a traditional private equity firm and has a long investment horizon. Secondly, in 2014, it was Nordic Capital’s 2012 vintage that invested in AniCura. Thus, it seems like neither of the parts were pressured to buy or to sell, but they saw an opportunity to add value at different stages of the development of the AniCura group.

Degeorge et al. (2016) studied if different career paths, differences in education between the primary and secondary buyer, and going from a regional primary buyer to a global secondary buyer creates value in a secondary buyout. Interestingly, Gabriel Fitzgerald, founder and CEO at Fidelio Capital, was five years at Nordic Capital before founding Fidelio and the people involved in the deal seem to have similar educational backgrounds, see Appendix VI. Therefore, the different decision makers seem to have similar career paths. While Fidelio Capital is a regional player, Nordic Capital is a global player with eight offices in Europe and one in the U.S. Thus, our findings also suggest that global and regional players can have complementary skills.

Another dimension to the complementary skill sets, are at what stage the private equity houses can create value. Guo et al. (2011) found that when a sponsor-backed company is in need of close monitoring, the number of GPs increase in the board of the sponsor-backed company. Drawing on this finding, our case study suggests that the smaller private equity house, i.e., Fidelio Capital, could work more closely with AniCura. During Fidelio Capital's majority ownership, Fitzgerald and Dahlberg were in close contact, sometimes every day, and visited potential targets together. Furthermore, Fidelio Capital also assisted AniCura's M&A organization. One important reason for the close contact was according to both the management team and Fidelio Capital, that the group was fragile in the beginning. Nordic Capital of course supported the board and the management of AniCura, but the contact was not as close. Thus, it seems like there was a difference in how closely the private equity houses worked with the portfolio company.

The difference in how closely the private equity houses worked with the portfolio company can be explained by attributes related to the fund or to AniCura. On one hand, since Fidelio Capital has smaller funds, they can spend more of their resources on following-up a relatively small investment. On the other hand, AniCura might have needed more support in the beginning to create a solid foundation. Our case study cannot conclude on which of these factors were most important.

(iii) How did AniCura integrate the more than 200 acquisitions?

When AniCura acquired clinics, they basically only acquired a lease and some equipment. Without the veterinarians working at the clinic, the value of a practice is close to nothing. Therefore, it was important to not only retain the employees, but also make sure they thrived. According to our case study, this was achieved by centralizing non-core tasks such as financial reporting, marketing and purchasing, and allowing the clinics to have substantial independence in the day-to-day business. However, to realize synergies a certain degree of coordination of business activities might have been required. Some researchers argue that there is a trade-off between autonomy and coordination (Puranam et al., 2006; Zaheer et al. 2013)

As the buy-and-build case was built upon the acquisition and integration of clinics, the M&A strategy was crucial. The case study suggests that AniCura and the private equity houses had a holistic view of the acquisition process from target sourcing to acquisition and integration. Acquisitions were primarily sourced through recommendations from veterinarians in the group. This achieved a good cultural fit, as well as making the sourcing more efficient.

Since the beginning in late 2011, the vision was to create a group with centralized back-office support and substantial autonomy in how to conduct the day-to-day tasks. The degree of autonomy in the group can be discussed. On one hand, the clinics had the liberty to organize their operations as they wanted. Also, the veterinarians were free to refer patients to specialists outside of the group and new business practices were introduced through personal relationships rather than directives, according to our interviewees. On the other hand, the day-to-day activities were still coordinated through the business managers. Although the management and the private equity owners emphasised governance through relationships, it can have been received as directives by the veterinarians. Our case study does not include the perspective from the veterinarians and we can therefore not conclude on the degree of autonomy.

Graham et al. (2015) found that the majority of executives reject or demand a considerable discount if there is a poor cultural fit in a merger. Our findings suggest that AniCura was prone to rejecting mergers if the cultural fit was poor. Especially Dahlberg and Fitzgerald emphasized that the targets had to have a good culture fit and high integrity. AniCura had made a few acquisitions with a low fit due to a high discount. Despite this, the decision makers seemed to regret accepting the acquisitions with a discount. Thus, our case study could suggest that the AniCura culture was close to homogenous. Bauer and Matzler (2014) found that there is less need for coordination post-merger, if there is a large difference in size and the cultural fit is good. An acquired clinic would be small compared to the group as a whole, which together with the cultural fit could explain why the clinics had autonomy in the conduct of day-to-day business.

Another aspect might be that rather than looking at the clinics as similar to each other, they complemented each other. An important driver of the buy-and-build strategy was that by including more veterinary care specialties in the group, the cross-selling within the group could increase. If the clinics were complementary to each other, the degree of coordination and autonomy might not have been opposites, according to the findings of Zaheer et al. (2013).

Research has found problems with creating a unified organization to be an important reason why mergers fail (Krug et al. 2014; Spoor and Chur, 2017). The case study suggests that AniCura worked continuously with creating a common corporate identity through social gatherings and a common brand. A unified culture might also have been supported by the knowledge exchange and educational programs within the group. The employee incentive program where any employee could buy shares in the group might also have contributed. Also, an important part of the M&A sourcing was that the acquired clinics became ambassadors for the group.

The veterinary care industry can be described as a high knowledge industry as the educational requirements for becoming a veterinarian or a nurse are high. Thus, knowledge management of communities of practice (CoP) might create value (Spoor and Chu, 2017). CoPs could for instance be when veterinarians share knowledge with their colleagues at the local clinic or with their acquaintances at other clinics. Our case study suggests that the CoPs were changed during the buy-and-build as the contact between previously independent clinics increased. The CoP were also changed actively by the group since clinics were grouped together in a cluster with a business manager who spread best practices. This is in line with the findings of Wang and Xie that suggested that a value-adding culture can be introduced to the target.

It is difficult to assess whether the cultural fit of the companies were predetermined before the merger or if it could be improved. On one hand, after problems with the first acquisition in Norway, AniCura tried to acquire the best regarded clinics in each country. Furthermore, AniCura passed on most clinics where the cultural fit was low. On the other hand, AniCura might have introduced more value creating cultures. For instance, one best practice initiative was guidelines on how to make sure the veterinarians bill for all the provided services. This might have been a cultural shift from earlier, since the lack of full billing could have stemmed from care for the patient.

6 Conclusion

6.1 Concluding Remarks

We aimed to contribute to the literature by increasing the understanding on how value is created in the buy-and-build case of AniCura. The vision when AniCura was started was to through a Pan-European expansion, create a group of veterinary clinics where the back-office support is centralized and the clinics have substantial independence in the day-to-day operations.

We found that part of the value creation in the beginning was to build a platform company large enough to be relevant for financial buyers. The financial buyers could then use the platform to consolidate the market. In addition to reducing overhead in relation to sales by centralizing the headquarter function, we found that the private equity houses accelerated the implementation of productive initiatives such as improved billing. The organizational structure with business managers seems to have played an important role in the accelerated spread of best practices. A driver of this value creation can also have been the improved incentive structure that included the management, employees who wished to participate and those who sold clinics to AniCura. AniCura also seems to have benefited from being early in the race to consolidate the veterinary care industry. As the M&A market was immature, there was a lack of financial advisors and auctions which could have resulted in lower acquisition prices.

We also contribute to the literature on secondary buyouts by adding a dimension to how different private equity houses can complement each other. Our case study suggests that private equity firms of different sizes could create value at different stages in AniCura's growth journey. The smaller private equity house could work more closely with AniCura during the first crucial years. Later, when the group was more stable, a larger private equity house could create value in a more traditional private equity sense: improved management team, sourcing and building headquarter functions.

Lastly, we studied how AniCura managed to hold the group together after more than 200 acquisitions. Our findings suggest that the private equity houses focused on creating a culture that the veterinarians preferred to being independent, as well as creating a unified identity. The culture seemed to be both predetermined through the chosen targets as well as influenced by strategic management of the communities of practice.

6.2 Further Research

As the competition in the private equity industry increases, GPs will look for new ways to create value. More research will be needed on this topic as this thesis should only be interpreted within the scope of the case. To improve the understanding of the private equity industry, researchers also need to research emerging value creation strategies.

Due to the limitations of this thesis, there are several topics that we were not able to conclude on. Firstly, more research is needed to understand how private equity firms manage the culture in their portfolio companies. It would be interesting to understand to what extent the culture in a buy-and-build company is predetermined by the targets that are acquired or influenced by the owners. Secondly, more research is needed to fully understand how the competition and industry as a whole is affected by buy-and-build cases.

References

[1] Acharya, V. V., Gottschalg, O. F., Hahn, M., & Kehoe, C. (2013). Corporate governance and value creation: Evidence from private equity. *The Review of Financial Studies, 26*(2), 368-402. Retrieved from JSTOR database. Retrieved from http://www.jstor.org/stable/23356858

[2] Acharya, V. V., Kehoe, C., & Reyner, M. (2009). Private equity vs. PLC boards in the U.K.: A comparison of practices and effectiveness. *Journal of Applied Corporate Finance, 21*(1), 45-56. doi:https://doi.org/10.1111/j.1745-6622.2009.00215.x

[3] Achleitner, A., & Figge, C. (2014). Private equity lemons?evidence on value creation in secondary buyouts. *European Financial Management, 20*(2), 406-433. doi:https://doi.org/10.1111/j.1468-036X.2012.00644.x

[4] Akdoğu, E. (2011). Value-maximizing managers, value-increasing mergers, and overbidding. *The Journal of Financial and Quantitative Analysis, 46*(1), 83-110. Retrieved from JSTOR database. Retrieved from http://www.jstor.org/stable/23018518

[5] Aktas, N., de Bodt, E., & Roll, R. (2013). Learning from repetitive acquisitions: Evidence from the time between deals. *Journal of Financial Economics, 108*(1), 99-117. doi:https://doi.org/10.1016/j.jfineco.2012.10.010

[6] Aldatmaz, S., & Brown, G. W. (2020). Private equity in the global economy: Evidence on industry spillovers. *Journal of Corporate Finance, 60*, 101524. doi:https://doi.org/10.1016/j.jcorpfin.2019.101524

[7] Ang, J. S., & Cheng, Y. (2006). Direct evidence on the market-driven acquisition theory. *Journal of Financial Research, 29*(2), 199-216. doi:https://doi.org/10.1111/j.1475-6803.2006.00174.x

[8] Arcot, S., Fluck, Z., Gaspar, J., & Hege, U. (2015). Fund managers under pressure: Rationale and determinants of secondary buyouts. *Journal of Financial Economics, 115*(1), 102-135. doi:https://doi.org/10.1016/j.jfineco.2014.08.002

[9] Axelson, U., Jenkinson, T., Strömberg, P., & Weisbach, M. S. (2013). Borrow cheap, buy high? the determinants of leverage and pricing in buyouts. *The Journal of Finance, 68*(6), 2223-2267. doi:https://doi.org/10.1111/jofi.12082

[10] Axelson, U., Strömberg, P., & Weisbach, M. S. (2009). Why Are Buyouts Levered? The Financial Structure of Private Equity Funds. *The Journal of Finance, 64*(4), 1549-1582. doi:https://doi.org/10.1111/j.1540-6261.2009.01473.x

Baker, G. P. (1992). Beatrice: A Study in the Creation and Destruction of Value. *The Journal of Finance, 47*(3), 1081-1119. doi:https://doi.org/10.1111/j.1540-6261.1992.tb04006.x

[11] Baker, G. P., & Wruck, K. H. (1989). Organizational changes and value creation in leveraged buyouts: The case of the O.M. scott & sons company. *Journal of Financial Economics, 25*(2), 163-190. doi:https://doi.org/10.1016/0304-405X(89)90080-9

[12] Bansraj, D., Smit, H., & Volosovych, V. (2020). *Can Private Equity Funds Act as Strategic Buyers? Evidence from Buy-and-Build Strategies.* Amsterdam and Rotterdam: Tinbergen Institute. Retrieved from http://hdl.handle.net/10419/229661

[13] Bargeron, L. L., Schlingemann, F. P., Stulz, R. M., & Zutter, C. J. (2008). Why do private acquirers pay so little compared to public acquirers? *Journal of Financial Economics, 89*(3), 375-390. doi:https://doi.org/10.1016/j.jfineco.2007.11.005

[14] Bauer, F., & Matzler, K. (2014). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. *Strategic Management Journal, 35*(2), 269-291. doi:https://doi.org/10.1002/smj.2091

[15] Bernstein, S., & Sheen, A. (2016). The operational consequences of private equity buyouts: Evidence from the restaurant industry. *The Review of Financial Studies, 29*(9), 2387-2418. doi:https://doi.org/10.1093/rfs/hhw037

[16] Betton, S., Eckbo, B. E., & Thorburn, K. S. (2008). Corporate takeovers. *Handbook of Corporate Finance: Empirical Corporate Finance, 2*

[17] Bhattacharyya, S., & Nain, A. (2011). Horizontal acquisitions and buying power: A product market analysis. *Journal of Financial Economics, 99*(1), 97-115. doi:https://doi.org/10.1016/j.jfineco.2010.08.007

[18] Bloomberg. (2018). *Billionaire-Backed Fidelio Is Looking for More After 900% Return.* Retrieved 14/05/2021, from https://www.bloomberg.com/news/articles/2018-06-13/billionaire-backed-fidelio-is-looking-for-more-after-900-return

[19] Boone, A. L., & Mulherin, J. H. (2007). How are firms sold? *The Journal of Finance, 62*(2), 847-875. doi:https://doi.org/10.1111/j.1540-6261.2007.01225.x

[20] Borell, M., & Heger, D. (2013). *Sources of value creation through private equity-backed mergers and acquisitions: The case of buy-and-build strategies.* Mannheim; ZEW: Zentrum für Europäische Wirtschaftsforschung. Retrieved from http://hdl.handle.net/10419/88121

[21] Bradley, M., Desai, A., & Kim, E. H. (1988). Synergistic gains from corporate acquisitions and their division between the stockholders of target and acquiring firms. *Journal of Financial Economics, 21*(1), 3-40. doi: https://doi-org.ez.hhs.se/10.1016/0304-405X(88)90030-X

[22] Braun, R., Jenkinson, T., & Stoff, I. (2017). How persistent is private equity performance? Evidence from deal-level data. *Journal of Financial Economics, 123*(2), 273-291. doi: https://doi.org/10.1016/j.jfineco.2016.01.033

[23] Brown, G., Harris, B., Jenkinson, T., Kaplan, S., & Robinson, D. (2020). Private equity: Accomplishments and challenges. *Journal of Applied Corporate Finance, 32*(3), 8-20. doi: https://doi.org/10.1111/jacf.12415

[24] Chanmugam, R., Shill, W., Mann, D., Ficery, K., & Pursche, B. (2005). The intelligent clean room: Ensuring value capture in mergers and acquisitions. *Journal of Business Strategy, 26*(3), 43-49. doi:https://doi.org/10.1108/02756660510597092

[25] Cohn, J. B., Mills, L. F., & Towery, E. M. (2014). The evolution of capital structure and operating performance after leveraged buyouts: Evidence from U.S. corporate tax returns. *Journal of Financial Economics, 111*(2), 469-494. doi:https://doi.org/10.1016/j.jfineco.2013.11.007

[26] Davis, S. J., Haltiwanger, J., Handley, K., Jarmin, R., Lerner, J., & Miranda, J. (2014). Private equity, jobs, and productivity. *The American Economic Review, 104*(12), 3956-3990. Retrieved from JSTOR database. Retrieved from http://www.jstor.org/stable/43495362

[27] Degeorge, F., Martin, J., & Phalippou, L. (2016). On secondary buyouts. *Journal of Financial Economics, 120*(1), 124-145. doi: https://doi.org/10.1016/j.jfineco.2015.08.007

[28] Demiroglu, C., & James, C. M. (2010). The role of private equity group reputation in LBO financing. *Journal of Financial Economics, 96*(2), 306-330. doi:https://doi.org/10.1016/j.jfineco.2010.02.001

[29] Dong, M., Hirshleifer, D., Richardson, S., & Teoh, S. H. (2006). Does investor misvaluation drive the takeover market? *The Journal of Finance, 61*(2), 725-762. doi:https://doi.org/10.1111/j.1540-6261.2006.00853.x

[30] Døskeland, T. M., & Strömberg, P. (2018). *Evaluating investments in unlisted equity for the norwegian government pension fund global (GPFG).*

[31] Du, D., & Gerety, M. (2018). Do private acquirers pay less compared to public acquirers? *Economics Letters, 164*, 35-37. doi:ttps://doi-org.ez.hhs.se/10.1016/j.econlet.2017.12.036

[32] Eckbo, B. E. (2014). Corporate takeovers and economic efficiency. *Annual Review of Financial Economics, 6*(1), 51-74. doi:https://doi.org/10.1146/annurev-financial-110112-120938

[33] Eckbo, B. E. (1983). Horizontal mergers, collusion, and stockholder wealth. *Journal of Financial Economics, 11*(1), 241-273. doi:https://doi.org/10.1016/0304-405X(83)90013-2

[34] Eckbo, B. E., & Thorburn, K. S. (2008). Chapter 16 - Corporate Restructuring: Breakups and LBOs. *Handbook of empirical corporate finance* (pp. 431-495). San Diego: Elsevier. doi:https://doi.org/10.1016/B978-0-444-53265-7.50008-1

[35] EQT. (2014). *EQT VI acquires Evidensia Djursjukvård AB.* https://www.eqtgroup.com/news/Press-Releases/2014/EQT-VI-acquires-Evidensia-Djursjukvard-AB/

[36] FEDIAF. (2012). *Facts & Figures 2012.* Retrieved 15/05/2021, from http://wabbitwiki.com/images/a/ae/Facts_and_figures_2012.pdf?fbclid=IwAR2UKxFXqV65hzNwTN59k0Wkk6TnXRCHDGWstRR9iPAdMvnaNOuf2io1BCQ

[37] Fee, C. E., & Thomas, S. (2004). Sources of gains in horizontal mergers: Evidence from customer, supplier, and rival firms. *Journal of Financial Economics, 74*(3), 423-460. doi:https://doi-org.ez.hhs.se/10.1016/j.jfineco.2003.10.002

[38] Fidelio Capital. (a). *About.* Retrieved 01/04/2021, from https://fideliocapital.se/about/

[39] Fidelio Capital. (b). *Focus.* Retrieved 01/04/2021, from https://fideliocapital.se/focus/

[40] Fuller, K., Netter, J., & Stegemoller, M. (2002). What do returns to acquiring firms tell us? evidence from firms that make many acquisitions. *Journal of Finance, 57*(4), 1763-1793. doi:https://doi.org/10.1111/1540-6261.00477

[41] FVE. (2019). *Survey of the veterinary profession in Europe.* Retrieved 15/05/2021, from https://fve.org/cms/wp-content/uploads/FVE_Survey_2018_WEB.pdf?fbclid=IwAR3OseQ75oY3pOpxLzbpkhG1fCDAyk2Yu9T9Ouf6r33c12qG1GjeBLJ1MiA

[42] Gomes, J., & Livdan, D. (2004). Optimal diversification: Reconciling theory and evidence. *The Journal of Finance, 59*(2), 507-535. doi:https://doi.org/10.1111/j.1540-6261.2004.00641.x

[43] Gompers, P., Kaplan, S. N., & Mukharlyamov, V. (2016a). What do private equity firms say they do? *Journal of Financial Economics, 121*(3), 449-476. doi:https://doi.org/10.1016/j.jfineco.2016.06.003

[44] Gompers, P., & Lerner, J. (2000). Money chasing deals? the impact of fund inflows on private equity valuations. *Journal of Financial Economics, 55*(2), 281-325. doi:https://doi-org.ez.hhs.se/10.1016/S0304-405X(99)00052-5

[45] Gorbenko, A. S., & Malenko, A. (2014). Strategic and financial bidders in takeover auctions. *The Journal of Finance, 69*(6), 2513-2555. doi:https://doi.org/10.1111/jofi.12194

[46] Guo, S., Hotchkiss, E. S., & Song, W. (2011). Do buyouts (still) create value? *The Journal of Finance, 66*(2), 479-517. Retrieved from JSTOR database. Retrieved from http://www.jstor.org/stable/29789787

[47] Hammer, B., Knauer, A., Pflücke, M., & Schwetzler, B. (2017). Inorganic growth strategies and the evolution of the private equity business model. *Journal of Corporate Finance (Amsterdam, Netherlands)*, 45, 31-63. Retrieved from 2017 Elsevier B.V. database.

[48] Harford, J. (2005). What drives merger waves? *Journal of Financial Economics, 77*(3), 529-560. doi:https://doi.org/10.1016/j.jfineco.2004.05.004

[49] Harris, R. S., Jenkinson, T., & Kaplan, S. N. (2014). Private equity performance: What do we know? *The Journal of Finance, 69*(5), 1851-1882. Retrieved from JSTOR database. Retrieved from http://www.jstor.org.ez.hhs.se/stable/43612946

[50] Jensen, M. C. (1989). "Active investors, LBOs, and the privatization of bankruptcy*". *Journal of Applied Corporate Finance, 2*(1), 35-44. doi:https://doi.org/10.1111/j.1745-6622.1989.tb00551.x

[51] Jordbruksverket (2013). *Hundar, katter och andra sällskapsdjur 2012.* Retrieved 15/05/2021, from https://jordbruksverket.se/om-jordbruksverket/jordbruksverkets-officiella-statistik/jordbruksverkets-statistikrapporter/statistik/2020-06-22-hundar-katter-och-andra-sallskapsdjur-2012?fbclid=IwAR2zyvvijteujSqiTmsxGb6donizvNXv-grnWqCLw5Tp8AlgBV3_PIO15w4

[52] Jordbruksverket.*Produktionsmedelsprisindex.* Retrieved 15/05/2021, from http://statistik.sjv.se/PXWeb/pxweb/sv/Jordbruksverkets%20statistikdatabas/Jordbruksverkets%20statistikdatabas__Priser%20och%20prisindex__Prisindex__Prisindex%20med%20basar%202010=100/JO1001APMA10.px/?rxid=5adf4929-f548-4f27-9bc9-78e127837625

[53] Kaplan, S. N. (1989). Campeau's acquisition of federated: Value destroyed or value added. *Journal of Financial Economics, 25*(2), 191-212. https://doi.org/10.1016/0304-405X(89)90081-0

[54] Kaplan, S. N., & Schoar, A. (2005). Private equity performance: Returns, persistence, and capital flows. *Journal of Finance, 60*(4), 1791-1823. doi:https://doi.org/10.1111/j.1540-6261.2005.00780.x

[55] Kaplan, S. N., & Strömberg, P. (2009). Leveraged buyouts and private equity. *Journal of Economic Perspectives, 23*(1), 121-146. doi:https://doi.org/10.1257/jep.23.1.121

[56] Konkurrensverket (2018). *Bättre konkurrens om fler byter djurförsäkring.* Retrieved 10/05/2021, from https://www.konkurrensverket.se/globalassets/publikationer/rapporter/rapport_2018-6.pdf

[57] Krug, J. A., Wright, P., & Kroll, M. J. (2014). Top management turnover following mergers and acquisitions: Solid research to date but still much to be learned. *Amp, 28*(2), 147-163. doi:https://doi.org/10.5465/amp.2011.0091

[58] Lichtenberg, F. R., & Siegel, D. (1990a). The effects of leveraged buyouts on productivity and related aspects of firm behavior. *Journal of Financial Economics, 27*(1), 165-194. doi:https://doi.org/10.1016/0304-405X(90)90025-U

[59] Ljungqvist, A., & Richardson, M. P. The cash flow, return and risk characteristics of private equity. *SSRN Electronic Journal*, doi:https://doi.org/10.2139/ssrn.369600

[60] Mars. (2018a). *Mars petcare completes acquisition of AniCura.* Retrieved 14/05/2021, from https://www.mars.com/news-and-stories/press-releases/anicura-completion

[61] Mars. (2018b). *Mars Petcare Marks Strategic Entry into European Veterinary Care Sector as Anicura to Join the Business.* Retrieved 14/05/2021, from https://www.mars.com/news-and-stories/press-releases/mars-petcare-strategic-entry-european-veterinary-care-sector

[62] McAfee, R. P., & Williams, M. A. (1988). Can event studies detect anticompetitive mergers? *Economics Letters, 28*(2), 199-203. doi:https://doi.org/10.1016/0165-1765(88)90114-0

[63] Nordic Capital. (a). *History.* Retrieved 14/05/2021, from https://www.nordiccapital.com/about/history/

[64] Nordic Capital. (b). *Key facts.* Retrieved 14/05/2021, from https://www.nordiccapital.com/about/key-facts/

[65] Nordic Capital. (c). *Sectors.* Retrieved 14/05/2021, from https://www.nordiccapital.com/sectors/

[66] Nordic Capital. (d). *Our Approach.* Retrieved 14/05/2021, from https://www.nordiccapital.com/building-businesses/our-approach/

[67] Nordic Capital. (e). *Nordic Capital wins award for "Nordic Deal of the Year" following its sale of AniCura.* Retrieved 14/05/2021, from https://www.nordiccapital.com/news/nordic-capital-wins-award-for-nordic-deal-of-the-year-following-its-sale-of-anicura/

[68] Nordic Capital. (2014). *Nordic Capital invests in AniCura.* Retrieved from https://www.nordiccapital.com/news/nordic-capital-invests-in-anicura/

Nordic Capital. (2019). *Nordic capital wins prestigious operational excellence award for the fifth time - AniCura named winner in EMEA large cap category.* Retrieved 12/05/, 2021, from https://www.nordiccapital.com/news/nordic-capital-wins-prestigious-operational-excellence-award-for-the-fifth-time/

[69] Phalippou, L., & Gottschalg, O. (2009). The performance of private equity funds. *Review of Financial Studies, 22*(4), 1747-1776. doi:https://doi.org/10.1093/rfs/hhn014

[70] Private Equity News. (2018). *Consolidation Play Pays Off for Nordic in Vet Business.* Retrieved 15/05/2021, from https://www.penews.com/articles/consolidation-play-pays-off-for-nordic-in-vet-business-20180611

[71] Puranam, P., Singh, H., & Zollo, M. (2006). Organizing for innovation: Managing the coordination-autonomy dilemma in technology acquisitions. *The Academy of Management Journal, 49*(2), 263-280. doi:https://doi.org/10.2307/20159763

[72] Rhodes–Kropf, M., Robinson, D. T., & Viswanathan, S. (2005). Valuation waves and merger activity: The empirical evidence. *Journal of Financial Economics, 77*(3), 561-603. doi:https://doi.org/10.1016/j.jfineco.2004.06.015

[73] Rhodes-Kropf, M., & Robinson, D. T. (2008). The market for mergers and the boundaries of the firm. *The Journal of Finance, 63*(3), 1169-1211. doi:https://doi.org/10.1111/j.1540-6261.2008.01355.x

[74] Robinson, D. T., & Sensoy, B. A. (2016). Cyclicality, performance measurement, and cash flow liquidity in private equity. *Journal of Financial Economics, 122*(3), 521-543. doi:https://doi.org/10.1016/j.jfineco.2016.09.008

[75] SCB.*Resultaträkningsposter enligt Företagens ekonomi, mnkr efter näringsgren SNI 2007, resultaträkningsposter och år*. Retrieved 15/05/2021, from https://www.statistikdatabasen.scb.se/sq/106769

[76] Sensoy, B. A., Wang, Y., & Weisbach, M. S. (2014). Limited partner performance and the maturing of the private equity industry. *Journal of Financial Economics, 112*(3), 320-343. doi:https://doi.org/10.1016/j.jfineco.2014.02.006

[77] Shahrur, H. (2005). Industry structure and horizontal takeovers: Analysis of wealth effects on rivals, suppliers, and corporate customers. *Journal of Financial Economics, 76*(1), 61-98. doi:https://doi.org/10.1016/j.jfineco.2004.01.001

[78] Spoor, J. R., & Chu, M. (2018). The role of social identity and communities of practice in mergers and acquisitions. *Group & Organization Management, 43*(4), 623-647. doi:https://doi.org/10.1177/1059601117703266

[79] The Greater Stockholm Veterinary Hospital Foundation. *Purpose of the foundation*. Retrieved May 15, 2021, from https://stiftelsendjursjukvard.se/en/

[80] Valedo Partners. (2012). *Valedo II invests in evidensia djursjukvård*. https://www.valedopartners.com/en/valedo-ii-invests-evidensia-djursjukvard/

[81] Van den Steen, E. (2010). Culture clash: The costs and benefits of homogeneity. *Management Science, 56*(10), 1718-1738. doi:https://doi.org/10.1287/mnsc.1100.1214

[82] Wang, C., & Xie, F. (2008). Corporate governance transfer and synergistic gains from mergers and acquisitions. *The Review of Financial Studies, 22*(2), 829-858. doi:https://doi.org/10.1093/rfs/hhn018

[83] Wang, Y. (2012). Secondary buyouts: Why buy and at what price? *Journal of Corporate Finance, 18*(5), 1306-1325. doi:https://doi.org/10.1016/j.jcorpfin.2012.09.002

[84] Yin, R. K. (2014). *Case study research* (5. edition ed.). Los Angeles: SAGE.

[85] Zaheer, A., Castañer, X., & Souder, D. (2013). Synergy sources, target autonomy, and integration in acquisitions. *Journal of Management, 39*(3), 604-632. doi:https://doi.org/10.1177/0149206311403152

Appendix

Appendix I
Key Financials

This table shows key financials for AniCura between 2011–2017. Based on information gathered from the annual reports of AniCura Holding AB (Swedish corporate identity number: 556854-1378). Note that the first year (Dec-11) only represents the last two months of the year.

(SEK mn)	**Dec-11**	**Dec-12**	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**
Income Statement							
Sales	15.1	396.5	685.5	914.2	1,258.4	1,799.7	2,646.6
growth, %		*2531.8%*	*72.9%*	*33.4%*	*37.6%*	*43.0%*	*47.1%*
EBITDA	0.3	19.4	60.1	84.4	91.5	202.3	307.7
margin, %	*2.2%*	*4.9%*	*8.8%*	*9.2%*	*7.3%*	*11.2%*	*11.6%*
EBIT	(0.7)	(4.1)	3.5	3.3	(0.3)	(15.6)	(7.2)
margin, %	*(4.5%)*	*(1.0%)*	*0.5%*	*0.4%*	*(0.0%)*	*(0.9%)*	*(0.3%)*
Net profit/loss	(1.0)	(16.8)	(23.0)	(33.6)	(67.4)	(84.7)	(131.2)
margin, %	*(6.8%)*	*(4.2%)*	*(3.4%)*	*(3.7%)*	*(5.4%)*	*(4.7%)*	*(5.0%)*
Balance Sheet							
Total assets	241	476	761	926	1,434	2,465	3,251
Debt	(75)	(190)	(267)	(451)	(880)	(1,807)	(2,522)
Cash	16	18	76	62	104	218	369
Net debt	**(59)**	**(172)**	**(191)**	**(389)**	**(776)**	**(1,589)**	**(2,152)**
% of total assets	*(24.5%)*	*(36.1%)*	*(25.1%)*	*(42.0%)*	*(54.1%)*	*(64.5%)*	*(66.2%)*

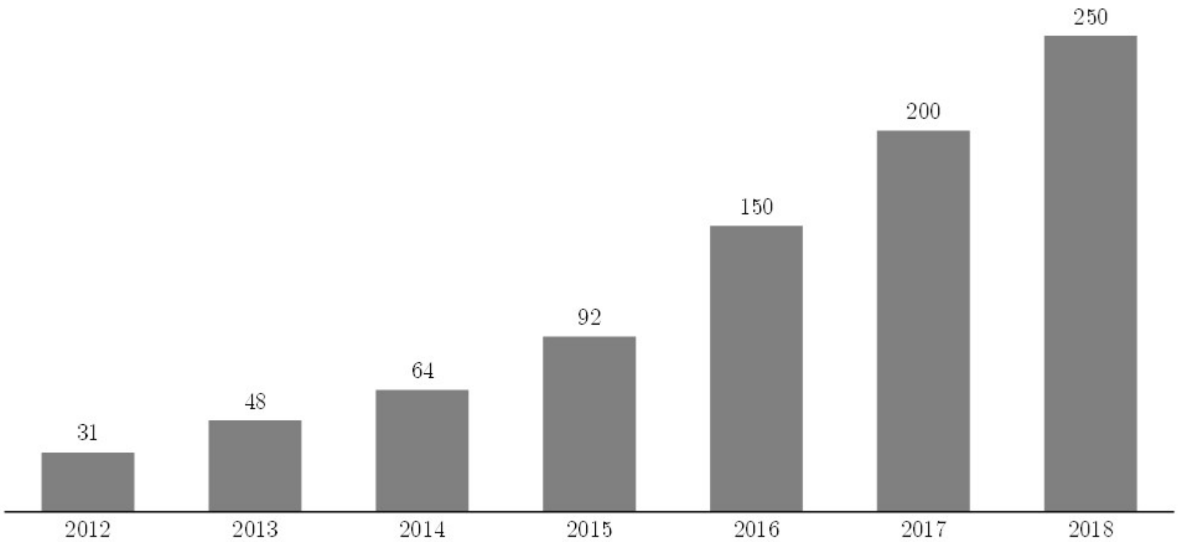
Appendix II
Key Financials (Pro Forma)

This table shows the pro-forma key financials for AniCura between 2013–2018. Based on information received from Nordic Capital.

(EUR mn)	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Dec-18**
Sales	87	118	180	246	311	414
growth, %		*36%*	*53%*	*37%*	*26%*	*33%*
EBITDA	10	13	25	34	44	62
margin, %	*11%*	*11%*	*14%*	*14%*	*14%*	*15%*

Appendix III
Number of Clinics

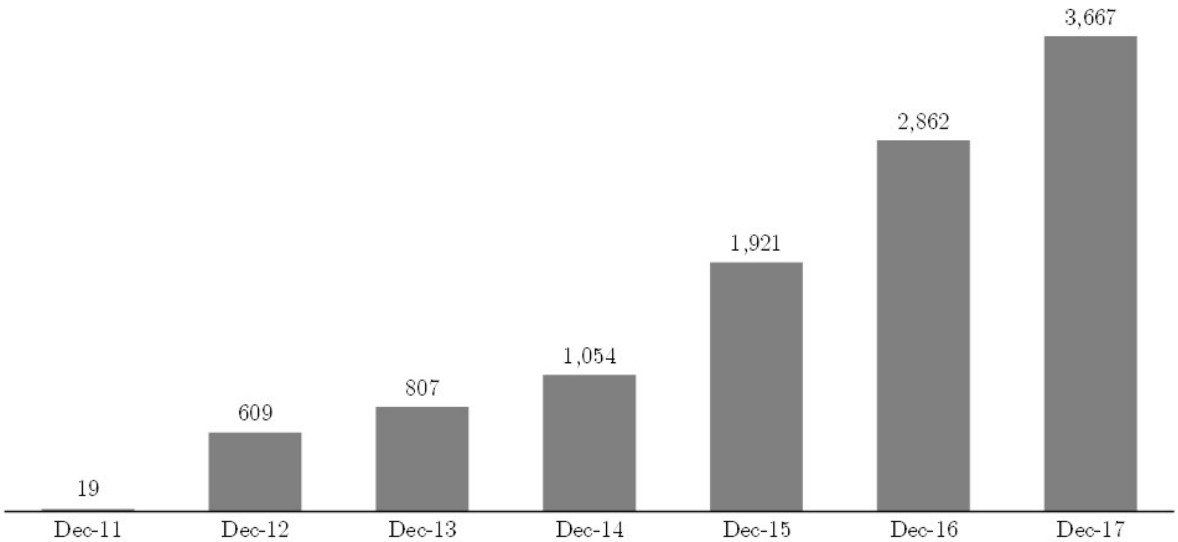
This chart shows the number of clinics that were part of AniCura between 2012–2018. Based on information received from Nordic Capital.



<

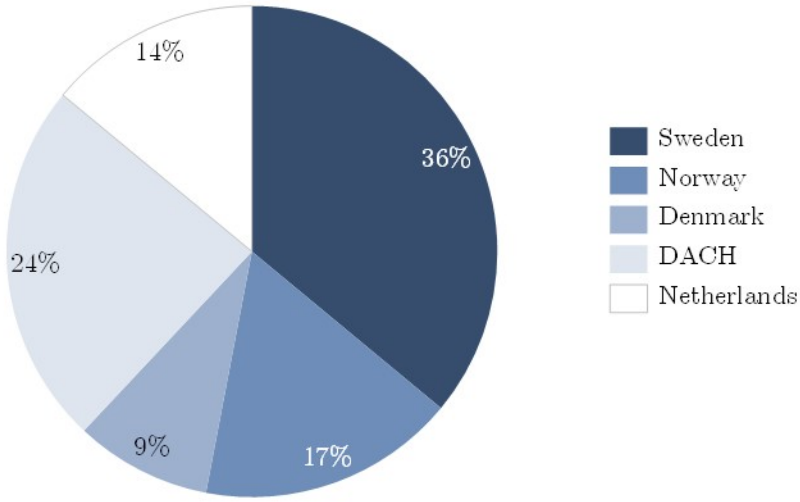
Appendix IV
Average Number of Employees

This chart shows the average number of employees at AniCura between 2011–2017. Based on information gathered from the annual reports of AniCura Holding AB (Swedish corporate identity number: 556854-1378).



Appendix V
Revenue Distribution

This chart shows the revenue distribution for the period 01/01/2017–31/12/2017. Based on information received from Nordic Capital.



Appendix VI
Interviewee Biographies

Gabriel Fitzgerald is the Founder and CEO of Fidelio Capital. Fitzgerald previously worked at Nordic Capital for five years and within M&A at Carnegie Investment Bank for two years. Fitzgerald holds an MSc in Finance from the Stockholm School of Economics and has a curriculum stage one University Medical Degree from Linköping University.

Thomas Vetander joined Nordic Capital in 2006. Vetander has served on the boards of five Nordic Capital portfolio companies and is primarily focused on the Healthcare sector. He previously worked as a Management Consultant at McKinsey & Company for two years. Thomas holds an MSc in Engineering Physics from the Royal Institute of Technology in Stockholm and a BSc in Business Administration and Economics from the Stockholm University School of Business.

Richard Riboe joined Nordic Capital in 2015. He previously worked at the Principal Investment Area at Goldman Sachs in London. During his studies, Richard also worked at Fidelio Capital in Stockholm. Riboe holds an MSc in Finance from the Stockholm School of Economics.

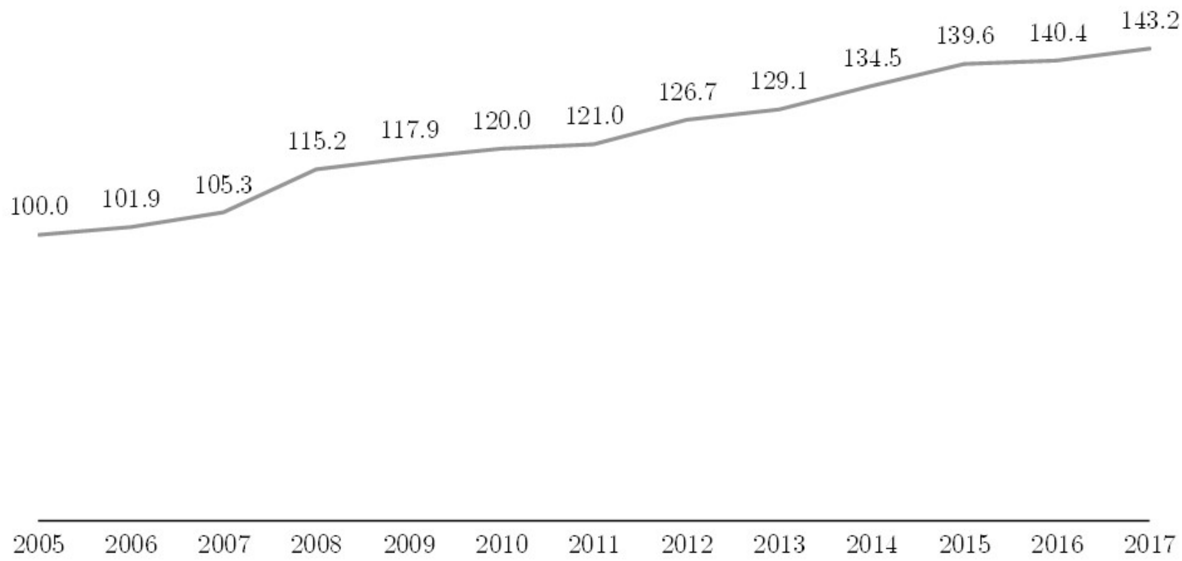
Peter Dahlberg was the CEO at AniCura between 2012–2019. Prior to joining AniCura, Dahlberg had pursued a financial career as Head of Nordic Region at Montagu Private Equity, having spent a decade building the investment company's presence in the Nordics and before that worked within the investment banking division at Deutsche Bank in London. He had acquired and led the repositioning of VetXX (now a part of Dechra Veterinary Products) as a board member and the same was true for a number of Nordic businesses such as Unifeeder, Visma and Hansen Protection.Dahlberg holds an LL.M. from Stockholm University, and an MSc in Business Administration, Management and Operation from Stockholm University School of Business.

Björn Rosén was elected Vice Chariman for The Greater Stockholm Veterinary Hospital Foundation in 2005. He sat on the Board of AniCura, both during Fidelio Capital's majority ownership and Nordic Capital's majority ownership.

Per-Arne Rudbert was elected Chariman for The Greater Stockholm Veterinary Hospital Foundation in 2005. Rudbert was between 1999-2016 the CEO for the Swedish Property company Humlegården Fastigheter. Rudbert holds a MSc in Finance from the Stockholm School of Economics.

Appendix VII
Price Development On Veterinary Services

The chart shows the price development for veterinary services between 2005–2017 in Sweden (Jordbruksverket, 2021).



Appendix VIII
Total Sales of Veterinary Services

The chart shows the total sales for veterinary services between 2000–2018 and average EBITDA margins, in Sweden (SCB, 2021)