VALUE CREATION AND EXITS IN PRIVATE EQUITY

A CASE STUDY OF TRITON PARTNERS' INVESTMENT IN ELEDA

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Abstract:

In this paper we analyse Triton Partners' investment in Eleda. Eleda is an infrastructure service group established by Triton in 2017 through a roll-up in the Swedish excavation service market. Following exit preparations from mid-2019 including several routes, the management team of Eleda ended up acquiring the company from Triton in early 2020, known as a management buyout. The aim of this study is to analyse what value enhancing initiatives Triton performed in the investment, as well as the unusual situation where management bought out the private equity firm. We find that Triton already prior to the investment developed a detailed agenda of initiatives and successfully executed several of them, generating well-above required returns. These initiatives included, among others, driving the roll-up, governance initiatives, and setting up slim group functions supporting the decentralized business model. We also find that the exit decision from Triton's perspective mainly was driven by fund strategy aspects as they needed a realized return to facilitate the upcoming fundraising. Triton's main route was an IPO, but the management did not feel ready for the public environment and believed that staying private longer would better suit the company's strategy, which was the main motive behind the buyout. Lastly, we find that the management buyout was made possible due to the management team already being significant minority owners, having good bank relationships, and a proven ability to conduct large transactions.

Keywords:

Private Equity, Value Creation, Roll-up, Exit, Management Buyout

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1. Introduction

In early 2017 the investment firm Triton Partners ("Triton") established a smaller private equity ("PE") mid-market fund ("TSM") alongside the larger existing mid-market fund ("TMM"). The strategy was intended to target investments with equity tickets in the range of EUR 20-50m in sectors including industrials, business services, health and consumer. The first investment considered in the fund was a roll-up of the Swedish excavation services industry, in which Triton decided to acquire Anläggning & Kabel Entreprenad i Malmö AB ("Akea") as a first acquisition and to later form the company Eleda. Between 2017 and 2019, Triton executed several acquisitions and value enhancing initiatives to grow Eleda into one of the leading Swedish firms within excavation services, with revenues of c. SEK 3bn. In the following exit preparations in 2019, Triton's initial main route was to undertake an Initial Public Offering ("IPO") of Eleda, with other alternatives including potential strategic or financial buyers. But the attractiveness of an IPO weakened following unfavourable market conditions, and long-going discussions with one of the potential buyers eventually halted. Then, the management team of Eleda led by Group CEO Johan Halvardsson and Akea CEO Peter Condrup proposed a management buyout ("MBO") and ended up acquiring Eleda from Triton in early 2020.

In this paper, we examine Triton's investment in Eleda focusing on the value enhancing initiatives performed by Triton and the exit discussions including the unusual in which the management team of a company buys out the PE firm. Working with PE data can be cumbersome due to data quality issues following e.g., the exemption from public disclosure requirements (Kaplan and Sensoy, 2015). Kaplan and Strömberg (2009) also show that management buying out a PE firm (known as an MBO), is one of the most unusual ways for a PE firm to exit an investment. Against this background, we use a single qualitative case study methodology to get in-depth knowledge of this investment through three research questions:

1) *What value enhancing initiatives did Triton do in the investment in Eleda?*
2) *How did Triton evaluate the exit alternatives and end up with an MBO?*
3) *How did the management of Eleda evaluate the buyout opportunity?*

We find that Triton performed several value enhancing initiatives in line with Kaplan and Strömberg’s (2009) three different engineerings being governance, financial, and operational. Examples include execution of a roll-up strategy acquiring four regional companies, governance initiatives, establishment of slim central functions supporting the decentralized business model, and implementation of a project management system across the group companies. The value creation plan set out was achieved after only c. 2.5 years and generated a return (measured as the internal rate of return (“IRR”)) well above the required rate. In terms of exit, it was from Triton’s side mainly driven by fund strategy aspects where they needed a realized return to facilitate the upcoming fundraising for the next fund (in line with Jenkinson and Sousa (2015) and Barber and Yasuda (2017)) although the investment itself also provided reasons for an exit. We also find that deal certainty, expected returns, the certainty of expected returns, and the ability to make a full exit were factors considered by Triton, where the MBO provided the most certain and fastest alternative at that time, despite an IPO initially being the main track. From the management team’s perspective, they felt that Eleda was not prepared to go public and would benefit from being private longer, and through already being large owners, having good bank relationships, and a proven ability to conduct large transactions, a MBO was made possible.

The purpose of this paper is two-fold. Firstly, we study a real-world event to get in-depth knowledge and analysis about PE ownership and exits in a real setting. Secondly, our case study has the purpose to provide material that can be used in a case study for teaching purposes at the Stockholm School of Economics.

We contribute to the existing literature in several ways despite that numerous academic studies exist about value creation and exits in a PE setting. However, to our knowledge, the literature about management buying out a PE firm is scarce in a Nordic context. By therefore providing in-depth insights into an investment that was sold to management we provide new knowledge to this field of study. We also compare our case study to the academic PE literature and therefore provide a new perspective of a practical application.

In terms of limitations and scope, our paper focus on the perspective of the owners and management team with regard to interviews conducted. Furthermore, we have been provided with internal and due diligence material from Triton and incorporated available public sources besides the interviews. In addition, one of the drawbacks of using the case study methodology is the lack of ability to draw general conclusions (Yin, 2014). Since we focus on a specific PE firm’s investment in the local Nordic region, the findings might not be applicable in other contexts. But as explained, the purpose of this paper is to provide in-depth knowledge of the specific investment including the unusual exit situation and not primarily to draw general conclusions for the global industry. We also focus only on an investment from a buyout fund (Triton’s TSM), which is investing in mature companies and not young companies such as start-ups. However, our findings might be applicable across different segments of the PE industry, including venture capital and buyout funds (Døskeland and Strömberg, 2018).

This paper is organized as follows. In section 2 we provide an overview of the existing literature, followed by section 3 in which we present the methodology. The case study can be found in section 4 and the discussion in section 5. In section 6 we present the conclusion and suggestions for future research.

2. Literature Review

In this section we review the existing literature focusing on three areas of PE research. First, we start with an overview of the PE industry including the structure, return, and risk to understand how investments are made and whether PE firms create any value or not. Then our main focus is covering PE ownership's impact on the portfolio companies, consisting of a section on value creation and a section on the decision to exit investments. We review the literature on value creation also including the aspect of acquisitive growth, and hence covering those aspects relevant for Triton's investment in Eleda.[1]

2.1. Private equity industry

In an early paper, Jensen (1989) lays the foundation of what has become the academic PE literature. Jensen argue that the public corporation has outlived its usefulness in certain industries and that the PE ownership model would become the dominant organizational form as it resolves the central weakness of the public corporation. The PE model is formed around an efficient organizational structure, in which the PE professionals are incentivized by performance-based compensation, overhead costs are low, and ownership stakes in portfolio companies is concentrated. The PE firms then act as active owners in the companies they invest in, including active governance, performance-based managerial compensation, and implementing a leveraged capital structure. An organization with this structure resolves the conflict of risk between managers and owners in the public corporation, but without eliminating the benefits of risk diversification and liquidity, according to Jensen.

2.1.1. Structure

The PE industry is part of the broader market of investments in unlisted assets (Døskeland and Strömberg, 2018). 2021 was a record year for the global industry in terms of deal count and value. The global buyout deal value amounted to USD 1.1tn, up from USD

[1] Our focus is mainly on papers about buyout funds doing control investments in mature firms. However, some of the papers we review study both buyout funds as well as venture capital funds.

577bn which could be attributed to increase in deal size and number of deals (Bain & Company, 2022).

PE funds are usually structured as limited partnerships with a finite life that are operated and managed by PE firms (Døskeland and Strömberg, 2018). The fund managers are known as General Partners ("GPs") and are responsible for the investments, while the investors are known as Limited Partners ("LPs"). LPs typically include institutional investors such as pension funds, endowment funds, and insurance companies. The investments made by the GP typically involves acquiring controlling stakes in unlisted companies ("portfolio companies") and working towards increasing the value during the ownership. Døskeland and Strömberg (2018) explain that GPs typically invest 1% or more of the total capital commitment to achieve the limited partnership status, and the rest is provided by the LPs. In the standard setup, the limited partnership is dissolved after ten years, and portfolio companies must be divested at that point. Upon approval from LPs, the fund usually can be extended for an additional two to three years.

GPs are compensated in two ways, through management fees and carried interest (Døskeland and Strömberg, 2018). Management fees are intended to cover day-to-day operations and typically range from 1.5% - 2.5% per year of committed capital during the investment period and on invested capital thereafter (in European buyouts). Carried interest is the performance-based compensation from the performance of the fund. It typically equals 20% and is earned first after LPs have been paid back their investment in the fund as well as a guaranteed return, known as the "hurdle rate" (Døskeland and Strömberg, 2018). The standard hurdle rate has been 8% in Europe since 1980, according to Døskeland and Strömberg (2018). Robison and Sensoy (2013) provide evidence that the average (median) management fees are 1.78% (2.00%) for buyout funds using a sample of 837 PE funds from 1984-2010 and almost all PE funds have carried interest of 20%. Similar evidence is shown by Metrick and Yasuda (2010) using a smaller sample of 238 funds between 1993-2006. The financial structure of PE funds minimizes agency conflicts between GPs and LPs (Axelson, Strömberg, and Weisbach, 2009). Moreover, the ability of GPs to raise capital for future funds is dependent on the performance of the current fund(s) and part of it is attributable to the reputation of the GP (Chung et al., 2012). Barber and Yasuda (2017) also emphasise the importance of realized returns, backed by exits, as having large effects on fundraising outcomes.

2.1.2. Fund-level returns and risk

Evaluating the performance of PE funds is more complicated than public equity markets due to, among other things, its exemption from public disclosure requirements and illiquidity (Kaplan and Sensoy, 2015). No completely objective way exists to compare a PE funds investment to the public market except for when the investment is exited or made. Historically, the industry praxis has been to measure the fund performance based on internal rate of return ("IRR") or using a multiple of invested capital ("MOIC"). However, these have several drawbacks being absolute and not relative measures of performance (Kaplan and Sensoy, 2015). Due to these drawbacks, the academic literature tends to measure performance using a public market equivalent ("PME") (Døskeland and Strömberg, 2018). The most common to use is KS-PME, in which the performance of the fund (amount of capital generated) is compared to a benchmark index, such as S&P 500 (Kaplan and Schoar, 2005). A KS-PME greater than one indicates that the PE returns are higher than the benchmark returns. To date, no consensus has been reached in academia on how to properly measure risk-adjusted PE performance (Døskeland and Strömberg, 2018). However, evidence from several papers supports that PE buyout funds performance has outperformed public markets benchmark (see e.g., Harris, Jenkinson, and Kaplan, 2014, 2015; Brown et al., 2015).

In terms of risk, investments in PE funds are illiquid investments due to the structure of limited partnerships being ten years with limited flexibility for the LPs. The LPs also requires a "liquidity risk premium" over public equity investments (Døskeland and Strömberg, 2018). Gompers, Kaplan, and Mukharlyamov (2016) argue that the investors are compensated for this illiquidity and fees by the target return normally being between 20 – 25% IRR.

2.2. Private equity and value creation

The returns PE firms generates originates from the economic value created from initiatives within governance, financial, and operational engineering in their portfolio companies (Kaplan and Strömberg, 2009). The emphasis in the literature has from the 1980s mainly been on governance and financial engineering, but over time more focus has been placed on operational engineering following an increased competition in the PE industry (Kaplan and Strömberg, 2009; Harris, Jenkinson, and Kaplan, 2014; Gompers, Kaplan, and Mukharlyamov, 2016). In a recent study, Biesinger, Bircan, and Ljunqvist (2020) groups value creation strategies in five, adding top-line growth and cash management to the above three. They show that successful value creation often consists of a tailored combination of the five and a rather "hands-on" approach, which in turn drives returns. In this section we consider the three different engineering aspects outlined by Kaplan and Strömberg (2009), incorporating top-line growth and cash management in operational engineering.

2.2.1. Governance engineering

Biesinger, Bircan, and Ljunqvist (2020) show, using a sample of 1,580 deals, that governance engineering is an explicit value creation lever in about half of all PE deals. They go on explaining this includes initiatives such as changing the portfolio companies' senior management, board, and shareholder structure as well as the system of rules and practices the companies are operated and controlled with. Kaplan and Strömberg (2009) also include equity-linked incentives to management, which normally is required in levered buyouts ("LBO").

Jensen (1989) argue that there is a trade-off between two different types of corporate governance: concentrated ownership with stronger governance, but low diversification and thus a higher cost of capital on the one side and dispersed ownership with weaker governance, but higher diversification and lower cost of capital on the other side. He further claims that the PE firm acts as an intermediary that can combine active ownership in firms but still have liquidity for the investor, eliminating the loss from agency problems arising from conflicts between owners and managers. As active owners, PE firms usually holds a large and majority ownership and controls the board (Kaplan and Strömberg, 2009). The board in portfolio companies are normally smaller and more active in terms of monitoring with a sense of urgency due to limited time horizon (Døskeland and Strömberg, 2018). Also, PE firms often use internal "operating partners" as members of their respective portfolio companies' boards. These usually have key skills and useful industry experience, further improving the board competence and governance in addition to the PE professionals and outside members (Biesinger, Bircan, and Ljunqvist, 2020).

Furthermore, aligning the management incentives to the owners through equity ownership, often called "management incentive programs" ("MIP") is a widely used engineering tool to reduce agency problems (Biesinger, Bircan, and Ljunqvist, 2020; Døskeland and Strömberg, 2018). Management teams are normally required to invest a significant fraction of their own wealth in common equity in the portfolio company (Døskeland and Strömberg, 2018) and end up owning c. 16% on average (Kaplan and Strömberg, 2009). This significant investment from management in combination with the seniority of debt and any shareholder loan ("SHL") or preferred equity (financing structure discussed more under financial engineering) aligns the incentives between the management and owners and reduces agency problems. This structure also provides both significant upside and downside as well as directs towards more long-term actions due to the illiquid ownership (Kaplan and Strömberg, 2009; Døskeland and Strömberg, 2018; Jensen, 1989).

2.2.2. Financial engineering

Financial engineering is an explicit value creation strategy in about one out of three PE deals (Biesinger, Bircan, and Ljunqvist, 2020). The main initiatives include optimizing the capital structure, improvements of incentive systems, and net working capital management (Biesinger, Bircan, and Ljunqvist, 2020)[2].

Optimizing the capital structure mainly revolves around optimizing the debt levels. This was originally one of the key drivers of PE returns but has reduced in importance for overall returns, although still being value creative (Kaplan and Strömberg, 2009; Harris, Jenkinson, and Kaplan, 2014; Gompers, Kaplan, and Mukharlyamov, 2016; Biesinger, Bircan, and Ljunqvist, 2020). The average financing structure in an LBO is normally financed with c. 60 - 70% debt-to-total capital or 4.0 to 5.2 times EBITDA (Rosenbaum and Pearl, 2020; Bain & Company, 2021; Axelson et al., 2013; Gompers, Kaplan, and Mukharlyamov, 2016). This levered structure with external debt makes it possible for PE firms to acquire controlling stakes with less capital invested from their funds (Kaplan and Strömberg, 2009). Moreover, there is a trade-off of using debt that differs across specific industries and firms (Berk and DeMarzo, 2019). The benefits of using debt in the capital structure include the tax shield due to the interest of debt being

[2] We have included the incentive aspects in the governance engineering, as Kaplan and Strömberg (2009).

deductible (Modigliani and Miller, 1958; Berk and DeMarzo, 2019) and the added discipline to management needed in order to be able to service the debt (Jensen, 1986). Lastly, equity returns can be enhanced using leverage and PE firm require less capital to gain controlling stakes (Modigliani and Miller, 1958; Jensen, 1989). The disadvantages with too much leverage include excessive interest payments, decreased firm value from a higher cost of financial distress, excessive risk-taking from management and underinvestment (Myers, 2001, Berk and DeMarzo, 2019). Besides the trade-off, there is also market timing considerations where PE firms respond to economy-wide market conditions and adjust the capital structure following debt market borrowing capacity and interest rates (Axelson et al., 2013; Gompers, Kaplan, and Mukharlyamov, 2016).

The remaining c. 30 – 40% of the financing structure in an LBO normally consists of a combination of mainly (c. 80 – 90%) SHL or preferred equity and the remaining relatively small part of common equity. This structure enables management to acquire a significant ownership stake in the company (by investing only in the relatively thin common equity) despite enterprise values averaging several hundred million U.S. dollars (Døskeland and Strömberg, 2018; Bain & Company, 2021; Jensen, 1989). The SHL or preferred equity normally accrues at c. 8 % annually (often same as the hurdle rate) but does not pay cash interest or dividends and is therefore treated as equity and does not increase the indebtedness of the company (Døskeland and Strömberg, 2018; Becker and Strömberg, 2015). Due to SHL or preferred equity being senior to the common equity in a liquidation event (although still junior to debt) but capped at the accrued rate, this further enhances the returns for management (investing mainly in common equity) in a strong exit scenario making them motivated to impose actions to increase the firm value (Døskeland and Strömberg, 2018).

2.2.3. Operational engineering

Operational improvements and top-line growth are the most common value creation strategies, prevalent in 84% and 74% of 1,580 sample deals (Biesinger, Bircan, and Ljunqvist, 2020). Improvement in cash management is less prevalent, only in one of seven deals (Biesinger, Bircan, and Ljunqvist, 2020). Initiatives mainly include buying or selling fixed assets, reducing costs, acquiring other companies, divesting parts of the business, improving IT and other organizational structures and processes, changing product or service offerings, and international expansion (Biesinger, Bircan, and Ljunqvist, 2020). It also includes deal sourcing and the exiting stage (Døskeland and Strömberg, 2018).

Operational improvements have since the 1980s been core in value added by PE firms and have increased in importance over time (Kaplan and Strömberg, 2009; Biesinger, Bircan and Ljunqvist, 2020). Initially, the focus was mainly on cost-cutting but now on the wider aspect of operational engineering (Gompers, Kaplan, and Mukharlyamov, 2016). With the increased competition and more mature PE market, operational engineering is becoming a differentiator for PE firms in their value creation (Hammer et al., 2017; Braun, Jenkinson, and Stoff, 2017; Døskeland and Strömberg, 2018). Many PE firms, in addition to a wide network of industry experts at their service, also employ internal full-time specialists within different areas like operational, strategy, debt financing, HR, working capital management, ESG, and procurement. These specialists intend to create an edge for the PE firm in their value creation as their capabilities are difficult to copy (Døskeland and Strömberg, 2018).

The effects on portfolio companies following a PE ownership are large and believed to persist post-exit, with a successful execution of a tailored plan as key driver (Biesinger, Bircan and Ljunqvist, 2020). Examples include improved profitability (Kaplan, 1989) and increased productivity (Davis et al., 2014) after a buyout. PE owned firms are also argued to follow better business practices (Bloom, Sadun, and Van Reenen, 2012) and invest more efficiently in innovation (Lerner, Sorensen, and Strömberg, 2011).

Gompers, Kaplan, and Mukharlyamov (2016) find that top-line growth is being the focus rather than cost-cutting in value creation plans, which is consistent with the increased use of growth initiatives from Biesinger, Bircan, and Ljunqvist (2020). Areas of particular importance for a PE firm with a limited time horizon when growing sales is inorganic growth for the platform investment through additional acquisitions (“add-ons“) and merging them together, a common strategy called “buy-and-build” if it is pursued extensively (Borell and Heger, 2013; Hammer et al., 2017; Døskeland and Strömberg, 2018). This strategy is a kind of hybrid between standalone PE investments and strategic firms’ acquisitions and is shown to be motivated by and deliver operating synergies in line with strategic buyers (Bansraj, Smit, and Volosovych, 2020). It is especially used in fragmented industries where the PE firm can create a market leader through consolidating the industry (Døskeland and Strömberg, 2018). There are also different approaches in terms of size and frequency within a buy-and-build strategy, where all approaches earn excessive returns compared to only organic growth except from the strategy with few and large acquisitions (Rehm, Uhlaner, and West, 2012; Bain & Company, 2019). The most successful strategy is companies that undertake many small deals, given that they have the right M&A skills (Rehm, Uhlaner, and West, 2012). Repetitive acquisitions can also give learning gains to the acquirer, especially when management continuity is high and add-ons more similar (Aktas, de Bodt, and Roll, 2013). In a buy-and-build strategy, besides expanding quicker, gaining key capabilities and a stronger market position, there is also often a multiple arbitrage where the target is acquired at lower multiples than the acquirer (Borell and Heger, 2013; Hammer et al., 2017; Døskeland and Strömberg, 2018). Following the trend of rising entry multiples for platform companies, this approach has raised in importance when GPs try to mitigate paying too high entry multiples (Bain & Company, 2019). However, a successful buy-and-build strategy is often dependent on successful integration of the add-ons (if intention is not to keep them decentralized) (Steigenberger, 2017) as well as cultural aspects (Sudarsanam, 2010). "Roll-up" is another acquisitive strategy whereby similar firms with overlap are acquired and merged to create a larger player to take advantage of synergies and increased market power, where a central management team is established above. This is distinct from the buy-and-build strategy (Bain & Company, 2019; Chen, 2019), but to our knowledge, the literature regarding roll-up strategy is limited.

2.2.4. Measuring value creation

The conventional framework for measuring value creation in PE investments measures investment returns by three levers: EBITDA, multiple, and net debt impact. These together sum up to the value creation measured as multiple on invested capital (MOIC), where the first two represent the change in enterprise value (Zeisberger, White, and Prahl, 2016). Growth in EBITDA, mainly through revenue growth but also margin improvements, has historically been the main driver of returns (Zeisberger, White, and Prahl, 2016). However, with a more recent dataset (exits 2016 – 2020), multiple expansion accounts for 56% of realized value creation (Bain & Company, 2022). The created value attribution framework (developed by Duff & Phelps since 2011) expands on the conventional framework for measuring value creation in PE investments and deconstructs value creation further (Zeisberger, White, and Prahl, 2016). This includes financial and operational levers where the performance is attributed to capital structure re-engineering, industry performance, and alpha (Zeisberger, White, and Prahl, 2016). This approach incorporates breaking down the underlying drivers for the three different levers in terms of internal and external factors with different fundamental sources to better understand and isolate performance and evaluate value creation initiatives and GP skills (Zeisberger, White, and Prahl, 2016).

2.3. Private equity and exits

Since PE funds have a finite life, exit processes and routes are an important aspect (Døskeland and Strömberg, 2018). The median holding period of portfolio companies is c. 4.5 years (Bain & Company, 2021). Portfolio company exits are often through three main routes being public listing through an IPO, sale to a strategic or financial buyer, and sale to another PE firm, known as a secondary buyout. Between 1970-2007, the most common route of exit for LBO transactions is a sale of the portfolio company to a strategic, non-financial, buyer (38%), followed by secondary buyout (24%) and IPO (14%) (Kaplan and Strömberg, 2009). Other types of exits include sale to management, sale to LBO-backed firm, and bankruptcy, of which sales to management is most uncommon accounting for 1% of all LBO deals (Kaplan and Strömberg, 2009). In a more recent study by Jenkinson and Sousa (2015), secondary buyouts account for 43% of all exits using a sample of 1022 portfolio companies for European LBO transactions between 2000-2014. A dividend recapitalization is also a form of ”exit” where the recapitalization provides an opportunity to monetize, de-risk and partially realize the investment while still retaining the ownership (Rosenbaum and Pearl, 2020).

The exit route is dependent upon various characteristics of the portfolio company and the capital market conditions, implying that PE firm exploits “windows of opportunities” that exist at different times (Jenkinson and Sousa, 2015). The structure of PE funds with GPs earning carried interest based on the performance of the fund (measured as an IRR), implies that there is a trade-off between immediacy (time) and certainty of exit routes with maximizing value. This trade-off is because a fast exit will boost the IRR (Jenkinson and Sousa, 2015) which is beneficial for the carried interest earned by the GP, but

Phalippou (2008) shows how this can lead to different incentives for the asset manager compared to the objective of the investors. Jenkinson and Sousa (2015) also show that the exit choice partially is driven by the PE firm's process for raising their next fund, where realizing a strong return (IRR) facilitates the fundraising. This might conflict with the interest of current fund's investors.

There are several pros and cons with the different exit alternatives. While the IPO is both a way to raise capital, increase publicity, provide a liquid way for further liquidations, and facilitate acquisitions, the IPO only provides a possibility for a partial exit and impose regulatory requirements (Brau and Fawcett, 2006). It is also rather expensive including c. 7% of capital raised in fees to investment banks plus other costs and pricing is contingent on market conditions as well as require under-pricing (Rosenbaum and Pearl, 2020; Lerner, 2007; Chen and Ritter, 2000). When selling to a strategic firm, the main advantage other than an opportunity for a full exit is that the acquirer often will be able to achieve synergies through the acquisition, which likely will be incorporated in the price if there is a competitive process (Døskeland and Strömberg, 2018; Gompers, Kaplan, and Mukharlyamov, 2016; Sudarsanam, 2010). The negative aspects of selling to a strategic firm is a relatively slower process due to internal decision makings and the normally non-core activity of doing acquisitions (Vild and Zeisberger, 2014). Selling to a financial player also provides an opportunity for a full exit, normally providing a more efficient and flexible process, but without the strategics' synergies and with a higher required return the valuation is normally lower (Vild and Zeisberger, 2014). The market characteristics and availability of leverage also affects financial players relatively more than strategic firms due to the higher dependency on leverage (Vild and Zeisberger, 2014). The literature regarding exits from a PE firm to existing management is to our knowledge limited. But from the literature on MBO *from a public firm* there is evidence that management tends to seek a traditional MBO by themselves when they are less financially constrained, the firms are undervalued and have high cash levels, and the managers already own a large fraction of the equity, otherwise they tend to partner with a PE firm (Fidrmuc et al., 2013).

3. Methodology

3.1. Empirical methodology

It is well known that PE data can be cumbersome to work with due to data quality issues (Kaplan and Sensoy, 2015). Furthermore, to our knowledge, the literature about management buying out a PE firm is scarce. Against this background, we use the single qualitative case study methodology to get in-depth knowledge of the real-world situation in Triton's investment in Eleda. Yin (2014) explains that the case study method is optimal if the main research questions are "how" and "why"-based and about a contemporary set of real-life events over which the researcher has little control. The case study method also enables researchers to conduct in-depth explorations and gain insight within some specific context or organisation (Rashid et al., 2019; Siggelkow, 2007). Moreover, Idowu (2016) explains that case study research can be the ideal methodology in cases where a holistic, in-depth investigation is needed. Our study aims to analyse the value creation initiatives performed by Triton as well as the unusual exit situation with a sale to management.

3.1.1. Data

Our main data sources consist of interviews conducted with people who worked closely with the deal as well as public and internal (partly confidential) information received from Triton. As interviews are one of our main data sources, we focused on preparing, conducting, and analysing the outcome in a structured way. This includes that the interviews were recorded, transcribed, and cross-checked with the other information we have received to check the validity. Interviews were conducted in a semi-structured way (Merriam, 1994), implying that we prepared a set of questions to ask, but let the interview unfold in a conversational manner. Our interviewees consist of Triton investment professionals who worked with the deal as well as the management team of Eleda involved in the buyout of Triton, as we believe they would give the most valuable insights (see Table 1 for an overview). Our interviews were conducted both physically and digitally between 8th of March to 29th of April 2022 and lasted between 45 to 60 minutes and analysed in close connection to the interviews, as well as followed up by additional questions where needed. Moreover, we have been provided with additional information from Triton including company-, due diligence-, and investment committee material. Parts of this information is confidential and can therefore not be disclosed in this paper. We do however not believe this will affect the quality or validity of our thesis as the material information, in our view, is disclosed. Triton has been given a draft of the paper for approval, including affirmation of correct references from interviews and the information disclosed, as well as an opportunity to correct any possible factual mistakes. This said, the paper is entirely a product of our own work and the interviewees have not directed the paper, its discussions, or its conclusions.

Table 1
Overview of Interviewees

Interviewee	**Company and role at time of the case**
Per Frankling	Triton, TSM Investment Advisory Committee, Head of TSM Nordic
Henrik Tholander	Triton, Investment professional
Sara Damberg	Triton, Investment professional
Johan Halvardsson	Eleda group CEO from 2019, CEO MEAB
Peter Condrup	CEO Akea

3.2.Methodological evaluation

The case study method has been criticized for the lack of rigor as well as lack of generalization from the case study findings (Yin, 2014). Siggelkow (2007) also discuss that you should be careful drawing general conclusion from just studying a single organization. By following a systematic procedure of working and well-defined research questions we are addressing the lack of rigor criticism. The purpose of this paper is also to provide in-depth knowledge of a real-world case with the unusual situation in which the management buys out the PE firm and connect this to the general literature about PE and hence not primarily to generalize. Furthermore, when conducting interviews, the response from the interviewees' can be subject to issues such as bias, poor recall of the event (investment in this case) as well as poorly articulated questions (Yin, 2014). According to Yin (2014), a reasonable approach to cope with the issues is to use multiple sources of data known as triangulation. We have therefore as explained conducted interviews but also combined it with additional information such as investment committee material etc. This allows us to cross-check patterns in different data and in case interviewees had a poor memory of certain aspects of the investment we could use alternative sources of information and thereby provide a more accurate and convincing case with more than one source of evidence. Case study research might also suffer from non-replicability (Idowu, 2016). We have therefore worked systematically with an interview protocol outlining questions asked during interviews in order to be as structured as possible. However, we cannot assure that replicating this paper would yield the exact same result as it is dependent upon the interviewees' responses at the time of the interviews which might differ. Worth mentioning is also that we rely on information received solely from Triton (except for interviews with management) which might be subject to bias. However, we see no reason why the information generated would be subject to bias.

4. Case Study

In this section we present Triton's investment in Eleda in chronological order of events. First, we provide a general introduction about Triton and a section about the initial discussions in 2016/2017. Second, we provide an overview of the process leading up to the investment including an overview of the excavation market, investment thesis and scenarios. Third, we outline activities conducted during Triton's ownership such as the acquisitions and other value accretive initiatives. Lastly, we go through the exit process during 2019 and early 2020 and explain the status of Eleda as of this paper (May 2022).

4.1. Triton Partners

Triton, founded in 1997 by the swedes Peder Pråhl and Björn Nilsson, is a privately owned investment firm controlled by the senior executives. At the time of the Eleda investment in 2017, Triton had raised c. EUR 9bn across six funds since inception within its investment strategies in mid-market private equity ("TMM"), Credit, and newly raised smaller mid-market private equity ("TSM"). Triton invests mainly in the German-speaking countries, the Nordics, and a few other European countries with offices spread across mainly Europe, but also the United States and China. Most of the investment professionals, c. 70 globally, are within the TMM strategy and organized by Triton's core sectors: industrials, business services, health and consumer. Some 20 investment professionals work with the TSM strategy and c. 10 in Credit.

The investment firm sees itself as an "all weather" investor delivering consistent return across cycles through its integrated operational platform. This platform consists of an extensive network of external industrial advisors combined with in-house operating partners, senior industry experts, and other specialists operating under the "*West Park"* brand supporting Triton and its portfolio companies. The specialist expertise includes strategy, digital, ESG, human capital, financing, tax, legal, communication and procurement, as well as the independent portfolio monitoring and development team. The investment philosophy is to partner and work closely with management to "*Build Better Businesses"* and has historically focused on companies with opportunities for improvements to reach their full potential, and through a "hands-on" and structured approach create sustainable and long-term value. The typical governance procedure in portfolio companies involves control investments, taking positions on the board of directors[3], setting up a Troika (CEO, Chairman and Triton) that meets more regularly, 100-day plans, monthly monitoring and follow-up, and budget processes.

The TSM strategy was established in early 2017 with total commitments of EUR 448m in the TSM I fund, led by managing partner and head of TSM Andi Klein based in Frankfurt, together with colleague Per Frankling responsible for the Nordics based in Stockholm. Per was hired specifically to lead the Nordic TSM team, whereas Andi had been with Triton since 2009. TSM invests in the same sectors as the TMM strategy with a key focus on unlocking the full potential by accelerating growth and scaling companies through digitalization, buy-and-build/roll-up, and international expansion initiatives with targeted equity investments in the range of EUR 20-50m. The reason for establishing a smaller PE strategy besides the existing larger one[4] was to leverage Triton’s experience within the smaller and midsized businesses they have gained throughout the years, act on the many opportunities received in this segment in which the larger strategy TMM had outgrown and provide an opportunity for their LPs to grow their allocation to PE with existing relationships. TSM had a dedicated team of investment professionals with sector and segment expertise and leveraged the wider Triton platform and network, which is viewed internally as a key competitive advantage compared to other PE firms with similar size as TSM. The platform and network are also used as a selling point to founders of potential acquisition companies as a proof of expertise, network, and sufficient resources to support the companies.

4.2. The Eleda investment

In the autumn of 2016, Triton, and more specifically Carl Johan Falkenberg (co-head of TMM Nordics as well as the TMM Services sector), was approached by a financial advisor and Mats Paulsson (ex-CEO of Bravida during Triton’s previous ownership and with extensive expertise in the excavation services market) on a potential roll-up of the

[3] Normally including at least one Triton investment professional and one senior industry expert or operating partners on behalf of Triton.
[4] As of 2017, Triton invested from Triton IV with commitments of EUR 3.6bn and fundraising was ongoing for the next fund.

Swedish excavation industry. The situation was identified in early 2017 to be of the newly raised TSM size, and Per (head of TSM Nordics) together with Henrik Tholander and Sara Damberg (both investment professionals) formed the deal team (see personal backgrounds in Appendix 1). Triton, with strong industry experience in the business services sector and an extensive network, saw itself in many ways as the natural consolidator of the industry and was able to retain a bilateral dialogue with the first potential targets in this roll-up. To succeed with the TSM strategy, the first investment was deemed to be of high importance for the overall TSM team and the deal team saw that this investment could provide an attractive opportunity. A roll-up was also something Triton had done before and the sector experience made this a relatively "safe bet", which were the main reasons why this opportunity was decided to be evaluated further.

4.2.1. Pre-investment phase

4.2.1.1. Swedish excavation services market

The excavation services market was a part of the c. SEK 95bn (2016) Swedish civil engineering services market, a subsegment of the wider construction market. Historically, the civil engineering segment had been stable in comparison to the cyclical wider construction market as it is less dependent on property new build. The segment is also to a large extent dependent on public spending with a rather high degree of ongoing maintenance character. Standard cyclicality does however exist in terms of working capital and contract terms, where most of the invoicing occur during the end of year and pre-summer months. In years of recession, the civil engineering market had shown resilience, as evident in the market increase during the financial crisis in 2008, in contrast to the decline in the general construction market.

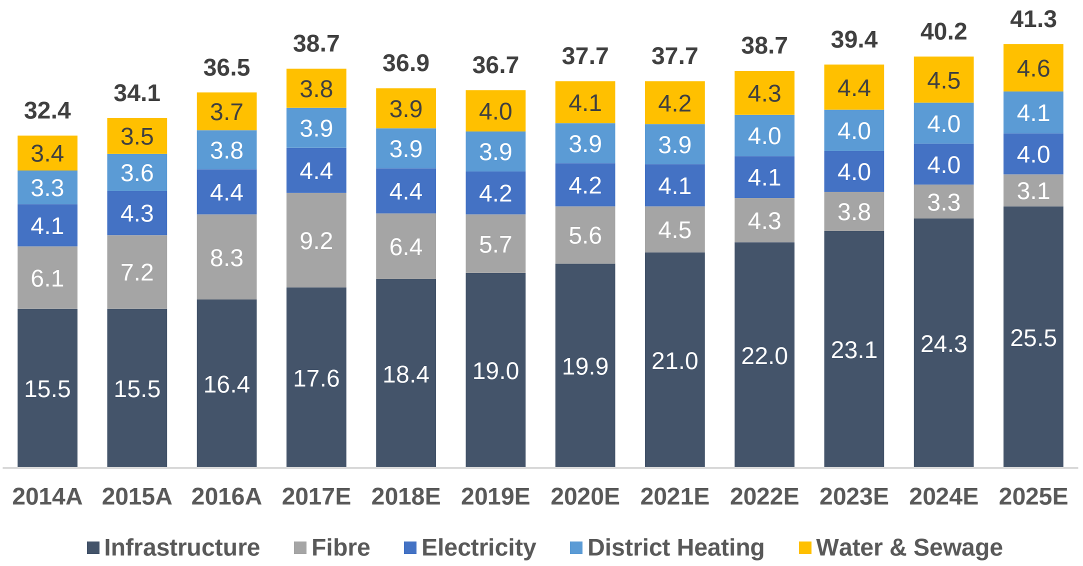
There are five subsegments within civil engineering containing excavation services to various degrees, and all have different dynamics and underlying drivers. The total estimated excavation services market was c. SEK 36.5bn (2016) divided by segment as follows:

- Infrastructure: c. SEK 16.4bn/ 45% of excavation market, constituting mainly of construction of roads, railway, and bridges. The segment was expected to grow with a $CAGR_{2016\text{-}2025}$ of +5.1%, driven by several infrastructure initiatives on the back of lagging maintenance of the existing base and a historically neglected need for expansion investments.

- Fibre networks: c. SEK 8.3bn/ 23% of excavation market, constituting mainly of build-out of fibre networks. The segment was expected to decrease with a $CAGR_{2016\text{-}2025}$ of -10.3%, due to a slowdown in build-out of fibre networks as penetration was reaching mature levels following high investments in the last ten years among providers to gain market share.
- Electricity: c. SEK 4.4bn/ 12% of excavation market, constituting mainly of build-out of electricity distribution networks. The segment was expected to decrease with a $CAGR_{2016\text{-}2025}$ of -1.1%, with key trends in conversion from overhead to underground cables as well as investments mainly in distribution compared to the previous focus on production.
- District Heating: c. SEK 3.8bn/ 10% of excavation market, constituting of build-out and replacement of heating distribution networks. The segment was expected to increase with a $CAGR_{2016\text{-}2025}$ of +0.8%, driven mainly by continued requirements for maintenance and upgrades as well as more investments into waste incineration facilities.
- Water and Sewage: c. SEK 3.7bn/ 10% of excavation market, constituting mainly of build-out, maintenance and replacement of water and sewage pipe networks. The segment was expected to increase with a $CAGR_{2016\text{-}2025}$ of +2.5%, driven by the need for maintenance or replacement of old pipes following low investments historically.

Combined, the subsegments (hence the overall excavation services market) was expected to grow slightly at a $CAGR_{2016\text{-}2025}$ of 1.4%, in line with historical growth rates, with a peak in 2017 due to a peak in fibre investments (see Figure 1). Excluding fibre, the market was expected to grow with a 3.4% CAGR. In terms of spending, c. 56% was from private investments and the remaining c. 44% from public investment, providing good visibility of future spending in the market. There were regional differences within the different segments as well, due to differences in historical investments and municipal- and regional plans for repairs and maintenance of current infrastructure.

Figure 1
Swedish Excavation Services Market (SEKbn)



	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Water & Sewage	3.4	3.5	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5	4.6
District Heating	3.3	3.6	3.8	3.9	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.1
Electricity	4.1	4.3	4.4	4.4	4.4	4.2	4.2	4.1	4.1	4.0	4.0	4.0
Fibre	6.1	7.2	8.3	9.2	6.4	5.7	5.6	4.5	4.3	3.8	3.3	3.1
Infrastructure	15.5	15.5	16.4	17.6	18.4	19.0	19.9	21.0	22.0	23.1	24.3	25.5

At the time of due diligence in 2017, the excavation market was fragmented where the ten largest companies represented c. 25% of the market (excluding the large national construction companies[5]). Vattenfall Services Nordic was the largest player, and other key participants included Infratek (was Triton owned 2013 to 2017 in TMM III fund), Eltel Networks (also partly Triton-owned), NeTel as well as the remaining c. 700 companies. Normally, the work done is project-driven with different grades of recurring tasks as well as size, where the customer hires a main contractor which in turn could hire subcontractors. Solid customer relationships with key customers, e.g., telecom operators, energy utilities and municipalities, are beneficial due to the continuous needs for recurring infrastructure maintenance and upgrades. Many of the projects are too small for being of interest to the large national construction companies, but customers still demand a strong and professional service provider. A strong local presence is therefore deemed important to win smaller contracts and negotiate frame agreements at a local level, both to maintain relations with local customers and to demonstrate an ability to execute on the smaller

[5] Large national construction companies include e.g., Skanska, NCC and PEAB. These took majority of large-scale projects, but often time the small to medium-sized projects were too small for them which is the reason for being excluded. The SNI/NACE codes included is 422 – Construction of Utility Projects, 429 – Construction of other civil engineering, and 4312 – Site preparation.

projects. Concerning the public contracts with municipalities, skills within public tendering processes and good relationships with local decision makers are also crucial. Since projects are smaller and numerous, strong decentralized management is key together with tight financial controls and follow-ups to make sure the project profitability is good enough. Thus, good and motivated projects managers and entrepreneurs with high accuracy of profitability forecasting and project execution is a key resource for these firms.

4.2.1.2. Investment thesis

In the spring of 2017 with the initial commercial due diligence and understanding of the market in mind, the deal team saw an attractive opportunity of consolidating the industry. Important considerations included Triton's previous experience of roll-up and buy-and-build strategies within installation service providers with decentralized business models (including NVS, Bravida, Assemblin, Infratek, EQOS Energie, and more), the level of comfort from the deal team, and the proprietary discussions held with the planned initial acquisitions. The potential investment was viewed as relatively "safe" for Triton in the sense that this was something they had experience of and knew they were good at, making this a natural first investment in the TSM fund.

The initial acquisition evaluated was Anläggning & Kabel Entreprenad i Malmö AB (Akea), which had a strong local presence and leading position in southern Sweden (especially in county of Skåne). Akea was founded in 2008 and headquartered in Malmö, Sweden with c. 250 FTEs'. The business segment was divided into two, being cables and civil works, and key services included excavation services for fibre and other cables, but the offering included other services as well (see Appendix 2). Akea had a strong development in the years prior to the investment, generating c. SEK 82m in EBIT from revenues of c. SEK 956m in 2016 (8.6% margin), and was majority-owned by the local small-cap PE firm Priveq since 2015, together with management. Triton was able to retain a bilateral dialogue with Priveq, following internal dissent views where Priveq did not wish to make large add-on acquisitions to Akea due to fund limitations, which conflicted with management's ambition to take part in a substantial industry consolidation in partnership with a strong financial partner. The group was led by CEO and co-owner Peter Condrup and Triton saw strong fit with the investment thesis where Akea would be a strong regional company in the group. The long-time entrepreneur Peter was also active (with extensive expertise in the industry) and could be an ambassador for the continued acquisitions. Furthermore, Triton also saw it as a good starting point due to being previously PE owned by Priveq and therefore already had governance processes in place. Akea also had a rather asset-light business model with no own machines on the balance sheet and only hired up to c. 70% of workforce needed on a permanent basis. Instead, they were frequently hiring subcontractors who own their machines. This setup was to provide a more flexible cost structure, mitigating the effects of having too much fixed costs due to the rather seasonal swings intra-year in the excavation services industry. As Peter also had previous experience of being involved in a company that eventually were forced to restructuring, he was more cautious now. Triton was being advised by a financial advisor with regards to Akea, and Mats was engaged by Triton and due to his relevant previous experiences including deputy CEO of PEAB and more, he was foreseen to be the chairman of the new group.

During the due diligence phase of Akea, Kenneth Wahlström AB ("KEWAB") was identified as a natural and actionable potential second acquisition for the group (see Appendix 2). The KEWAB owners were in a sales process with the same advisor helping Triton on the buy-side for Akea and indicated a willingness to participate in the industry consolidation. They halted the sales process such that KEWAB could be the second acquisition in the roll-up, from Triton contingent on acquiring Akea first.

KEWAB, led by CEO Fredrik Larsson since 2013, operated within the non-building construction and machine rental/ sales segments with a market leading presence in Midwest of Sweden and c. 230 FTEs'. Established already in 1965, KEWAB had a long track record and had built a solid reputation in the market amongst customers being both large public and private entities. Core businesses included Construction, providing services such as excavation of power cables, and Machines, which rented out, provided leasing, and sales of construction and transportation machines. Compared to Akea which was considered as an asset-light business, KEWAB was rather capital heavy with a large vehicle fleet that it owned, financed with bank loans. The company also experienced strong revenue growth leading up to 2016 (partially due to acquisitions) reaching a sales of c. SEK 500m and showing strong margins generating c. SEK 50m in EBIT. Triton found this interesting due to its geographical diversification and being a good match with

Akea in the sense that KEWAB had its vehicle fleet which created synergies in terms of transportation arrangement for the whole group as well as bargaining power towards external machine providers. The management was considered experienced and able to continue leading the company under Triton's ownership.

With the market analysis and the identified *initial Akea acquisition in mind (and KEWAB as a potential second acquisition),* the deal team found the following main **investment attractions:**

- Roll-up potential: The main investment scenario included Akea and KEWAB as the two regional companies acquired. On top of this, there were reasons for pursuing an even more acquisitive agenda with further upside. Triton had a clear strategy for choosing targets, with the main criteria's being regional market leaders, small projects and recurring customers, strong management culture, and profits before growth. Combining regional companies acquired with adding a proven group organizational strategy on top (implemented in previous similar investments, including a lean corporate centre, decentralized management, wide share-based incentives, and keeping regional market profile), the group structure would be set. Triton saw a multiple arbitrage opportunity to be achieved from the consolidation of these smaller regional companies at modest multiples, compared to what could be achieved at exit for the combined group. The modest multiples for smaller targets originate from their relatively less diversified segments, heavier key individual dependency, and for them being too small alone for the capital market. Also, the opportunity for reinvesting managers to be a part of the journey from the beginning at a relatively low valuation was deemed valuable. On top of this, some operational synergies could potentially be achieved, although limited.
- Stable market: The Swedish excavation services market had low cyclicality, except for standard seasonal cyclicality, and multiple demand segments. The deal team was also confident of the understanding of the negative development of fibre market in terms of the demand for excavation services of fibre cables.
- Proven management with a strong track record: Existing management had worked together for many years, with very strong development including significant market share gains. The management was committed to a long-term journey and had indicated substantial reinvestments. A proof of managing a well-run business

was critical, as they were expected to continue operating on a standalone basis with support from group functions.

- Rapid debt paydown: With the rather moderate entry multiples combined with limited investment needs, the cash generation was strong and enabling a rather fast debt paydown. The somewhat volatile net working capital ("NWC") was expected to be covered by a large revolving credit facility ("RCF"), limiting any tied-up cash.
- Bilateral processes: The bilateral process regarding both Akea and KEWAB were deemed important in getting attractive entry multiples. This was the preferred way as auctions tend to drive up prices.

Although the investment seemed attractive, potential risks were highlighted. The **main risks** considered, as well as mitigants, were:

- Slower than anticipated market development: A decline in the fibre market was incorporated in the investment scenarios, with Akea expected to win market share to compensate for this. Also, growth in other segments was expected to offset the weak fibre market resulting in a total market that was rather stable and slightly increasing. The light business model with a large part of subcontractors and leased machines was also reducing the overall market risk. Also, additional acquisitions with another segment exposure would further diversify.
- Failed roll-up strategy: The standalone investment scenario with only Akea did not meet the required return targets. A roll-up was required to reach satisfactory returns and in the main scenario with KEWAB included as an additional acquisition, the returns were expected to be sufficient with further upside if a more aggressive roll-up was achieved. With exclusivity in the KEWAB process, the likelihood was high in completing that transaction mitigating the risk.
- Margin development in a market down-turn: Due to the rather asset-light business model with a large share of subcontractors reducing the fixed costs, the negative effects on margins in a potential market down-turn would be mitigated. In the market down-turn scenario, with significantly decreased margins, the expected returns were still positive.

With the identified investment attractions and risks, the deal team went on to identify specific **<u>value creation levers</u>**:

- <u>Multiple expansion through roll-up of regional excavation leaders creating a national contender</u>: The market within civil engineering and excavation services was fragmented, where several successful regional players with a lean fixed cost base and flexible structure focusing on small and medium-sized projects had been identified. On top of Akea, 14 additional potential targets had been identified. Most of the identified targets were pure-play excavation services companies and the remaining rail service companies. These targets were expected to be acquired at a lower multiple than the expected exit of the combined group driven by the factors mentioned.
- <u>Continued market share gain and top-line growth</u>: Akea had historically made significant market share gains in all market segments, mainly by providing efficient service, keeping strong customer relationships, and utilizing a lean cost base for attractive tender offerings. This was expected to continue going forward. And upon a successful roll-up strategy creating a diversified segment exposure for the group, there were also attractive market growth prospects to be capitalized upon.
- <u>Margin expansion</u>: Although Akea already had a rather lean fixed cost base with limited synergy potential, Triton saw a potential that some synergies should be able to be realized by utilizing an efficient group management focusing on financial control. This included e.g., exchanging experiences with contractors and being able to follow customers geographically and share resources in certain areas. It would also be a sign of track-record being a part of a large group which would be a strength in public procurement deals.
- <u>High cash conversion and rapid debt paydown</u>: Despite moderate leverage envisaged for the group a significant source of value creation would be gained through strong cash flow generation, helped also by the moderate entry multiple.

On top of these specific levers, other initiatives following normal Triton systematic governance procedures (monthly financial reporting, monitoring etc.) were expected to generate value. The proposed board of directors comprised Mats (chairman), Per and

Henrik from Triton, an additional external person with deep industrial knowledge, and potentially also one further and final member. Mats was also proposed to lead the group as interim CEO (working chairman) until a long-term solution was in place.

The deal team also considered the likely **exit routes** already prior to entry, where a secondary buyout or a trade sale was the most likely options. Financial buyers were expected to be attracted by the strong cash conversion with a continued consolidation potential beyond what Triton would be able to do during their ownership period. Strategic players, such as other local consolidators, was also expected to find this opportunity attractive whereby they could grow inorganic. A potential exit through an IPO could offer a premium exit multiple but is contingent on achieving a critical mass and sufficient scale as well as dependent on the market conditions at the time of exit. A potential recapitalization following the strong cash generation was also an alternative, to de-risk the investment, but also continue the roll-up. The investment horizon was set to rather short, as this would be the first investment in TSM I and realize solid returns quickly would be deemed important for further success of the TSM team at Triton.

4.2.1.3. Investment scenarios

When discussing with the TSM Investment Advisory Committee ("IAC"), the deal team presented different investment scenarios incorporating the opportunities and risks with the proposed investment. All cases were built on specific market development assumptions from the commercial analysis, and differed in key elements presented below (extract from the scenarios can be found in Appendix 3):

- Standalone Case: This scenario included only the acquisition of Akea. For the revenue development, the fibre segment was assumed to decline less than the overall fibre market in the first years, supported by discussions with key customers. In the other segments, the revenue was expected to grow faster than the market, as it historically had. Overall expected sales $CAGR_{2016\text{-}2020}$ of 3.5% compared to market CAGR of 0.6%. The margins were expected to increase slightly every year, mainly due to operating leverage. Capex to sales ratio was expected to remain, but NWC to increase from 8% of sales to 12%.
- Base Case: In addition to Akea, the acquisition of KEWAB was assumed to be executed in late 2017. The revenue assumptions remained for Akea in this

scenario, and 5% annual revenue growth was assumed for KEWAB. In total for the group, sales CAGR increased to 4.0%. On top of the same slight margin increase for Akea, a further 0.5 percentage points ("p.p.") margin improvement from synergies was expected to be realized. Capex to sales was kept at the same ratio, and NWC was expected to increase to c. 12.5%.

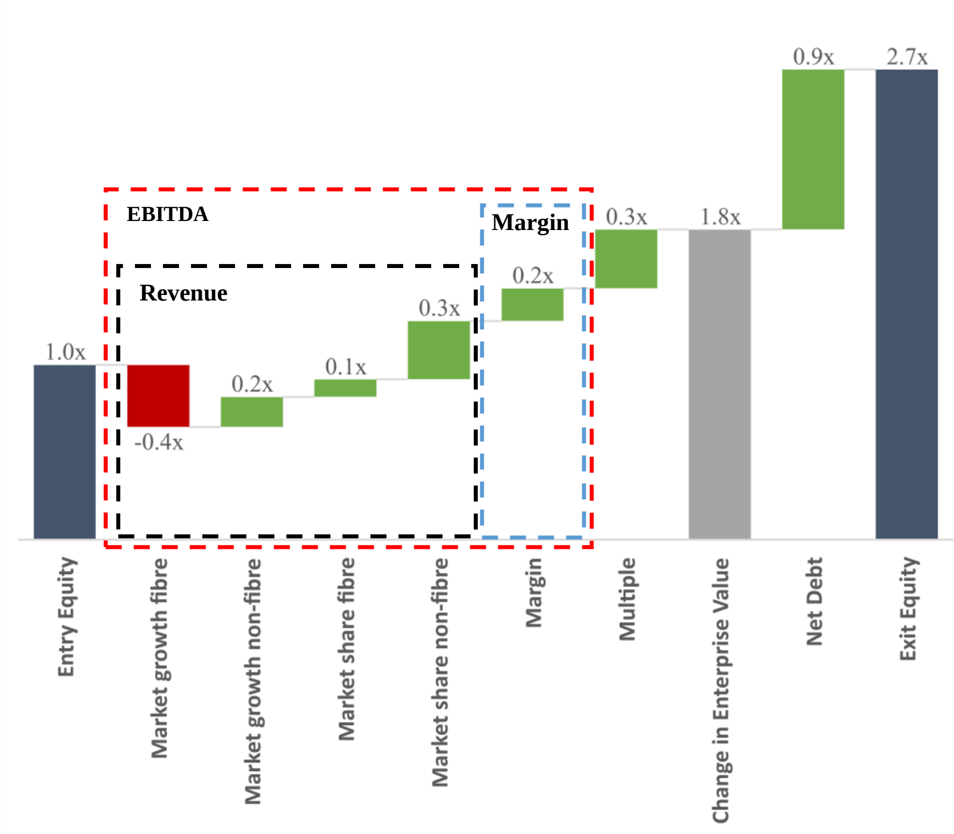
- Upside Case: Acquisition of three regional companies were assumed to be executed in late 2017. Both targets, in addition to Akea, was identical to the KEWAB acquisition assumed in Base Case. Akea was expected to grow faster than in Base Case, and other companies at 7% annual growth instead of 5%. In total, the expected sales $CAGR_{2016\text{-}2021}$ was 6.2%. For the margins, similar for Akea as the Standalone Case, and another 0.5p.p. per additional company in synergies. Capex and NWC assumptions like Base Case.
- Downside Case: Akea and KEWAB acquisitions assumed to be executed in 2017. The total excavation market was forecasted to decline with a CAGR of -1.9%. Both Akea and KEWAB were expected to grow faster than the market, with a forecasted $CAGR_{2016\text{-}2021}$ of 0.3%. Margins were expected to decline, reaching c. 5% in 2021, with no cost synergies assumed. Capex and NWC assumptions were mainly in line with Base Case.

Based on the main scenario being the Base Case, the value creation by the EBITDA, multiple, and net debt levers are shown numerically[6] in Figure 2, targeting 2.7x MOIC (5-year holding period). Of this 2.7x MOIC, external factors with a market decline in fibre have a negative effect of -0.4x, partly offset by market growth in other segments of 0.2x, giving a total of -0.2x in external market development. Internal factors in market share gains, 0.1x in fibre and 0.3x in other segments, complete the expected revenue development's impact on equity value to be positive 0.3x in total. The targeted improved

[6] Calculations for the different levers in explaining the change in equity value (Zeisberger, White, and Prahl, 2016):
EBITDA impact = Δ EBITDA * Entry Multiple,
Multiple impact = Δ Multiple * Exit EBITDA, and
Net debt impact = Δ Net debt,
which sums up to value creation. Each lever is divided by the initial equity investment, to arrive at MOIC.
EBITDA impact is broken down into Revenue and Margin impact:
Revenue impact = Δ Revenue * Entry Margin * Entry Multiple
Margin impact = Δ Margin * Entry Revenue * Entry Multiple
(Δ = Exit – Entry)

margins contribute with 0.2x. Multiple expansion from modest entry multiples to higher exit multiples as well as the professionalization of the group would also contribute positively, by 0.3x. These levers sum up to change in enterprise value, at 1.8x, 0.8x above initial investment at 1.0x. On top of this, the strong cash generation and debt paydown would lead to a reduced net debt at exit, contributing another 0.9x to the equity return.

Figure 2
Value Creation Bridge – Triton Base Case



4.2.1.4. Investment Advisory Committee approval

Prior to submitting the final bid for the initial Akea transaction, the deal team needed approval from the TSM IAC. Following the IAC discussions in June 2017, it was concluded that the initial Akea transaction fulfilled Triton's investment criteria (see Table 2), and was approved by the IAC, meaning that the deal team could go ahead with the final negotiations. However, some concerns were raised due to the exposure to fibre segment.

Table 2
Triton's Investment Criteria

Criteria	Comment
Region	✓ Fully active in Sweden
Market leader	✓ Strongest regional player
Size	✓ Equity ticket between the EUR 20 – 50m TSM I target
Attractive market	✓ Stable market development with diverse demand drivers ✓ Sector well-known to Triton
Cash flow generation	✓ Modest multiples ✓ Asset light business model
Management team	✓ Proven management team with strong track record
Value creation potential	✓ Clear roll-up opportunity • Valuation arbitrage • Some synergies
Lead investor	✓ Yes
Returns	✓ Yes

4.2.2. Ownership phase

4.2.2.1. Acquisition of first two regional companies (Akea and KEWAB)

In June 2017, a majority ownership of Akea was acquired from Priveq as the first portfolio company in TSM I. Key existing employees who were shareholders reinvested significant amounts, as indicated earlier with the willingness to partner with a new owner with increased M&A ambitions and access to capital. At the same time, exclusive discussions and continued due diligence with KEWAB were held as they earlier had halted their sales process to await Triton's acquisition of Akea. With the Akea transaction finalized in the summer of 2017, Triton could finalize the KEWAB acquisition in November 2017, diversifying both the segment and regional dependency. With two companies in the group, Triton called the group "Eleda", which is the Akea project name "Adele" backwards, and had initiated its journey on building an infrastructure services group.

4.2.2.2. Establishment of central management functions and initiatives

While the two companies continued to operate independently with the existing management teams under their own brand (a decentralized business model), central management functions were developed. This initially consisted of Mats as interim CEO and another person as CFO. Later, the functions were further developed with e.g., head of M&A/ Business development, an accountant and more, but the functions were always kept slim without increasing overhead costs too much. Also, the Triton deal team immediately started implementing the value creation agenda they had set out.

With regards to **governance engineering**, Triton constructed a new board of directors, initially in both the Akea and KEWAB separate boards until sufficient structures were developed on group level with a single board. The board consisted of Mats as chairman, Per and Henrik as directors representing Triton as well as Mikael Hägg and Hans Svedberg as external representatives (see Appendix 4). Mikael was already part of Akea's board of directors during Priveq's ownership with relevant experience and a good relationship with Peter, and Hans acted mainly as an employee representative. Triton controlled the company with >90% of the votes following the construction of different share classes. However, an important principle of Triton's governance is that they always use the board to influence the company with their active ownership, and never bypasses the management to get involved directly in the day-to-day operations.

Another important principle for Triton in their investments is trying to align the interests of management with Triton through a management incentive program ("MIP"), which was offered to key personnel. The program was wide across the organisation due to the importance of project managers and other mid-level managers, and not only for top management. To maximise the effectiveness of the alignment, all ownership through the MIP was in a holding company for the combined group, and thus no disproportionate ownership for anyone working in any of the specific individual companies. This was emphasized by management as important, aligning the interests across the wider group. Furthermore, the top management in Eleda was a larger than normal minority owner following their reinvestment (due to their successful previous careers and ownership), which led Triton to calibrate the MIP such that some large reinvestor's structure was more like Triton's (in terms of preferred and common equity split), although still being invited to invest proceeds in the most attractive common equity securities. A portion of the MIP was also reserved for new personnel that would join along the way as more acquisitions took place, as well as from external recruitments.

Other initiatives included the principle of keeping a decentralized business model where the regional companies were operated independently, although receiving support from the central functions. This was important due to the characteristics of the market benefitting from local decision making and close relationships with customers. With the decentralized business model and allocation of responsibility, regular and extensive monitoring was key. This consisted of monthly management reporting and presentation to Triton and the board including both financial and operational key performance indicators ("KPIs"). At Triton, other than the responsible deal team, the *Portfolio Monitoring and Development team* was responsible for this and operated independently, reporting directly to the IAC. The team works full-time with the portfolio companies including monitoring of the performance and development against different benchmarks as well as doing quarterly valuations of each investment. Extensive and detailed budgeting and forecasting processes where Triton was involved through the board were also part of the governance initiatives.

Several initiatives in terms of **financial engineering** were conducted. Triton used leverage to partly finance the initial acquisition of Akea, and the remaining financing included splits of preferred equity (accruing at 8%) and common equity. This structure enabled the MIP participants to get a relatively larger share of common equity with their investment, which combined with the different seniority (common equity lowest) further aligned the interests. The different share classes also included different voting power to secure control for Triton, as previously mentioned. This was important as Triton had their value creation agenda which require control to efficiently implement in the company. Triton also used a combination of upfront proceeds as well as earn-out, to promote alignment and de-risk the investment. Also, an RCF was secured to be able to handle seasonal swings in NWC following the natural cycle of the business. For the continued M&A agenda that followed (described below), the relatively modest multiples paid for the acquisitions were financed through a combination of sources. These sources included management reinvesting, the Eleda group being able to increase the leverage in the group (debt financing), as well as cash generated by Eleda. This financing structure limited the capital needed from Triton and therefore did not directly increase Triton's equity investment and exposure.

With **operational engineering**, the main initiative for the deal team was to handle and execute the roll-up plan set out. After the Akea and KEWAB acquisitions in 2017, the deal team were already on track for the Base Case (which included just these two companies). Two more regional companies were acquired (described further below). Furthermore, management highlighted that this journey could never have happened at the same speed and execution without partnering with Triton (or a similar PE owner) that possess this M&A expertise and access to capital. It was important for management to continue focusing on their expertise, which was running the regional companies and being close to customers and production. Triton therefore handled the acquisitions, although the management team was involved in meeting the potential targets and making sure a good fit before acquisition. Along the journey, internal M&A resources were built-up on a group level with a head of M&A/ Business development in late 2018. Tobias Andersson, with experience from the financial advisor assisting Triton in the roll-up, where assigned to the position. This M&A resource reduced the dependency on Triton for Eleda as well as freed-up time for the deal team. The four acquisitions were all led by proven management teams, were seen as regional leaders in different areas of Sweden, focused on small and medium-sized projects without the same competition from the larger national companies, as well as provided segment diversification – in line with the plan set out initially.

In addition to the execution of acquisitions, operational initiatives were performed on a local level with local management teams, as is key in these decentralized businesses. These initiatives included best-practise sharing between the companies (project management and training etc.), being able to follow the customers across regions, and improved tendering skills and offers. The acquired companies also varied in terms of matureness and professionalization due to their various backgrounds being PE- or founder owned and different manager experiences from large construction companies etc. Therefore, supporting the managers from the group level with general professionalization was important. Another important initiative was the implementation of a project management system ("Tracked") across all companies within Eleda, which was highly appreciated by the project managers and was an important tool for them to keep track of their projects. This also enabled significant improvement in terms of reviewing, forecasting, and reporting cycles which easily was consolidated and reported to the CEO, CFO, and board of directors allowing them to directly track the progress. This increased the transparency and enabled continued efficiently run decentralized principles with local decision making. Otherwise, relative to other Triton investments and Triton's normally "hands-on" approach, the companies within Eleda continued operating rather independent without the need for Triton's internal expertise, which was as expected and planned.

4.2.2.3. Acquisition of third regional company (MEAB)

Mark & Energibyggarna i Göteborg AB ("MEAB") was the third regional company acquired for the group, finalized in spring 2018 (see Appendix 2). MEAB was a profitable and strong regional player within excavation and ground preparation services (including district heating, railroad works, and water & sewage works etc.) in the Gothenburg area, with sales and EBIT of c. SEK 600m and 50m in 2017 (c. 8% margin). Founded in 1991, the company had c. 50 FTEs' and customers were primarily municipalities that had a recurring need for maintenance. The operations were divided into three areas, Construction (63% of 2017 sales), Energy (29%), and Infrastructure (8%). Furthermore, the business experienced strong growth during the years prior and was the fastest growing excavation company in the Gothenburg area. What Triton liked was that the business had an asset-light approach, in which they used subcontractors to provide both manpower and machinery and equipment, and the management team was considered proven and strong with the right insights in the local market. CEO was Johan Halvardsson, who joined the firm in 2013 and was a significant owner in MEAB and reinvested his proceeds in Eleda. He had played a vital role in developing MEAB, accelerated the growth and had a strong background from working within PEAB with a relationship to Mats. Johan and Peter also came well along directly, sharing similar views on how Eleda should be run. Triton believed MEAB matched the Eleda group (Akea/KEWAB) by being a strong regional player, diversifying the geographical presence, and complementing the business offering as they did not undertake any fibre business and hence was a source of diversification. Later in June 2019, after just over a year with Eleda, Johan was named the CEO of the group following a thorough process including external potential candidates. After this process, Johan was considered most suitable and the safest choice as Triton knew him. He was also accepted by the wider group and had a corporate background from large corporations. Mats therefore stepped down from being interim CEO to solely focus on being chairman of the group.

4.2.2.4. Acquisition of forth regional company (Salboheds)

Salboheds Bygg och Anläggningstjänst AB ("Salboheds") became the fourth regional company acquired in Eleda, finalized in June 2019 (see Appendix 2). Salboheds was a highly profitable, strong regional provider of excavation work services in Västerås and the surrounding areas. Founded in 2005 by the owners' Peter Johansson and Tom Andersson, the company had at the time of the investment c. 45 FTEs' and customers included both private and public sector clients. Services included excavation within water and sewage, district heating, infrastructure as well as industry and data centre. Salboheds had a handful of projects that increased turnover and profitability levels during 2016-2018 and just as with MEAB, they were considered as a relative asset-light business with a strong use of subcontractors. 2018 sales and EBIT were c. SEK 300m and 60m (c. 20% margin). Triton found Salboheds as an attractive acquisition due to the geographical location, which would provide opportunities for further expansion towards e.g., Stockholm. Furthermore, Salboheds was a strong local player with experienced and skilled entrepreneurs and historically high margins lately following two highly significant and profitable projects, with both sales and margins expected to normalise going forward.

4.2.2.5. Additional smaller add-ons to the regional companies

In addition to the four regional companies acquired, several smaller local add-ons were added to these companies, thus acting as platform companies. Examples are KEWAB's acquisition of both Slam- & Brunnsrensning i Karlstad AB and Ericsson i Lima AB in 2018, and MEAB's acquisition of Västkustens Anläggnings AB in 2019. The reason for acquiring these smaller add-ons was to strengthen the local presence and offering, as well as further increase the expected multiple expansion due to being able to purchase these smaller add-ons at even lower multiples. These acquisitions were financed centrally by Eleda (cash and debt) and not from the specific regional companies, which was important to keep the aligned structure and combined ownership in the Eleda group.

4.2.2.6. Other potential investments not materialized

Besides the acquisitions made, Triton evaluated several other potential investments that were declined due to being "picky" when choosing which companies to proceed with. Reasons for this included among other things that the investments did not fully match or strategically fit in Eleda in terms of geography or business offerings. For Triton, it was of importance that the dynamics of the founders matched with the others in the group. A key proposition in the Eleda group was also the focus on small and medium-sized projects and to have "repeatable themes" in these, meaning that you should be successful at a large scale. The reason for this was that the industry was a low-margin industry so if part of the work you perform was inefficient e.g., one large project underperforming, there was not much margin left. Some acquisitions Triton looked at did not live up to this philosophy, so they declined to proceed with them. Eleda had also to a large extent decided to work asset-light in the sense of hiring subcontractors (and not owning any own machines) and some potential investments were rather asset-heavy and were therefore not materialized.

4.2.3. Exiting phase

4.2.3.1. Exit preparations

Following the strong development of the group (see Appendix 5) and successful execution of value enhancing initiatives, the deal team in late 2018/ early 2019 started exit preparations for the group to be ready for an exit at the end of 2019. These preparations had an IPO as the main route, but also the possibility for a later decision on a potential M&A process. Eleda could also be kept for longer but starting preparations already at this stage would put pressure on the group to be ready when actually wanting to sell, providing Triton with good flexibility. As the deal team had successfully executed the acquisitive agenda, reaching a pro forma group revenue of above SEK 3bn, the group was deemed large enough for an IPO and they recommended the IAC to approve intensifying the exit work. In June 2019, the IAC approved continued IPO preparations as well as a continued mandate for an advisor to evaluate a potential trade sale, as Triton had been approached by several interested parties and discussions were already initiated.

For the different alternatives available, the deal team considered several aspects on how to approach it to maximize the return with as high deal certainty as possible. As the success of a potential IPO is dependent on external factors in the overall market environment and the current trading of relevant peers, the deal team had to evaluate this. In June 2019, the situation was solid on overall market conditions and most relevant peers (Instalco and NRC Gruppen) traded at c. 11.5x-15.1x 2019E EV/EBIT (see Appendix 6). Another factor limiting the certainty of returns in the potential IPO was that Triton would only be able to sell a proportion of their holdings, and the remaining ownership could only be sold after the lockup period ends, normally c. 6 to 12 months later. Also, if the group would continue with an IPO, potential changes and/or additions to the board of directors were likely needed to fulfil criteria, which was somewhat urgent due to short time until the planned IPO in the timeline. The costs for an IPO were also something that the deal team considered, which normally is higher than in other alternatives. For the other alternatives, Triton had initiated discussions with both potentially strategic and financial buyers. In this track, the deal team argued the main advantage was that Triton could complete a full divestment and have greater visibility over expected returns compared to the IPO track.

4.2.3.2. Long-going discussions with a potential financial buyer

Following continued exit preparations and completion of the Salboheds acquisition, the exit discussions accelerated and a go/no-go discussion with regards to the IPO track was coming up in September 2019. However, the market environment for IPOs had developed negatively, with reference index OMXSPI down almost 10% during August compared to the April high (see Appendix 7) which together with a perceived reduced sentiment lowered the attractiveness of an IPO at that time. At the same time, interactions with several potential buyers, both strategic and financial, intensified. Especially one of these, a financial buyer with experience of backing founders which suited well with the continued ambition from management, had shown strong interest.

In the beginning of September, the deal team had deep discussions with the potential buyer with an approximately agreed valuation subject to the satisfactory completion of due diligence. With this, the IPO preparations were put on hold and the counterpart started conducting extensive due diligence and met with management numerous times. After more than a month of work, the counterpart in November decided to decline the opportunity, with reason appearing to originate from concerns regarding seasonally high NWC level in Eleda (as similar for the industry as a whole). Although declining at this stage, there were indications that discussions could be reinitiated next year if the company would show an improved NWC development. Following the ended discussions, yet a new potential buyer approached Triton's advisor, but Triton had concerns regarding their ability to meet the valuation expectations.

4.2.3.3. Management proposes an MBO

With the postponed discussions with the potential buyer and the IPO process put on hold, the management team, led by Group CEO Johan and Akea CEO Peter, approached Triton with a proposal of an MBO. The management team argued that the full potential in Eleda had not yet been utilized and believed it was too early for an IPO as the organisation in their view, was not ready. They believed that to continue the consolidation, it would be easier to be in a private environment compared to the public in terms of manoeuvrability. Johan and Peter also meant that Eleda potentially had grown out of Triton's TSM size and were worried if Triton would be willing to invest more capital, therefore it could be the right moment for an MBO. The proposed valuation was in line with the discussions held before with the other potential buyer, and the management was ready to execute quickly as no due diligence was required. The intention in their proposal was to sign a Sale and Purchase Agreement ("SPA") in the middle of December, just a few weeks after proposing it. Although being large minority shareholders, following the strong performance of the group under Triton's ownership increasing the firm valuation, they would still need to finance significant amounts from other sources. In the proposal, financing was not finalized, and Triton had some concerns regarding the ability to secure enough financing. When coming back to Triton, only c. one week after the proposal, Johan and Peter had successfully arranged the financing needed through their bank relationships.

At the same time as Triton evaluated this proposal, discussions with the IPO advisors had shown that the outlook for an IPO had improved with peers trading up (see Appendix 6), and indications that at least the same valuation as assumed in the earlier IPO process could be achieved now as well. Though, if preparations would be re-initiated, a new targeted timeline was needed. When comparing the expected proceeds and returns to Triton, the IPO was believed to potentially be achieved at a higher valuation compared to the MBO, increasing the MOIC. But the IRR would likely go down following only a partial exit being possible in the IPO, with a corresponding follow up sale later. And, although potentially higher proceeds with the IPO track, other than the company's performance there were uncertainties regarding valuation and market sentiment, where an IPO could be postponed further. The other important factor was the management's attitude to going public, although Triton had full control of the decision due to their voting power.

4.2.3.4. Available alternatives in December 2019

In December 2019, the following alternatives were available for the deal team:

- IPO: With lots of work already done, re-initiating the IPO process with aim of a Q2 2020 IPO was possible. With support from the improved market sentiment and strong trading of relevant peers, an attractive valuation was expected at a somewhat premium to other alternatives. Although, external factors could still have a significant impact and the IPO process would consume much time from management.
- Trade sale: Following continued interest from several parties, re-initiating discussions with either financial or strategic players could be attractive, and a transaction would result in a full exit. Valuation levels were however uncertain, and the potential buyer would need to undertake due diligence, which would take time and require management's attention. But even with re-initiated discussions and interest, there would not be any guarantee of a transaction, as evidenced by the previous discussions a few months ago.
- MBO: With financing now in place, and no due diligence needed, the deal certainty was high, providing a full exit opportunity at a valuation acceptable for Triton. And if Triton did not sell to management, Triton had some concerns regarding the continued relationship between them as the management now had indicated a willingness to buy Triton's stake and continue alone. Additionally, Triton was concerned that management knew something that Triton did not, and that it could be the reason for the MBO.
- Keep Eleda/ re-capitalization: There was no urgent need for Triton to sell Eleda after just c. 2.5 years ownership, and with the strong performance and solid cash generation, Triton could instead keep it for longer. With continued value enhancing initiatives and acquisitive agenda, Triton's proceeds could potentially increase. Also, if keeping Eleda, Triton would be able to re-capitalize and de-risk the investment by receiving some proceeds, keeping the ownership and take part of continued journey.

4.2.3.5. Recommendation to IAC and completed exit

In the meeting with the IAC in December 2019, the deal team's recommendation was to sell Eleda to existing management. This was believed to be the most attractive alternative given the high certainty of a full exit in the light of fundraising for TSM II. As TSM I did not have any realized investments (see Appendix 8), and no other portfolio company ready for exit either, Eleda was the only investment that could be realized in a timely manner before fundraising was expected to start in 2020. Potentially, the return could be higher if keeping Eleda, but overall, for TSM this would be the best alternative, and in line with what has been communicated to investors (short holding period). Triton had executed the plan set out, achieving beyond the Upside Case in just 2.5 years. By therefore realizing the investment to management they would realize a strong return which would help in the upcoming fundraising, secure a successful first investment for TSM, and be beneficial for the investment professionals with the carry structure.

The IAC approved the deal team's recommendation and Triton signed an agreement to divest Eleda in December 2019, which was completed in January 2020. For the IAC, which had concerns regarding the fibre exposure, realizing the investment was also good in that point of view. A timeline over the total investment can be found in Appendix 9.

4.2.4. Eleda today (May 2022)

After the MBO in January 2020, the management team of Eleda created a new business plan for a continued acquisitive strategy with additional acquisitions and a kept focus on small to medium-sized projects. Later in April 2020, Johan and Peter concluded that they needed additional capital and a new partner to continue the strategy. After discussions with the Nordic PE firm Altor, in June 2020 Altor acquired a majority stake from Altor Fund V of EUR 2.5bn (2019 vintage). In combination with this, Altor's existing portfolio company One Nordic was acquired by Eleda, an acquisition of Järfälla VA-& Byggentreprenad AB was executed, and the capital-intensive part of KEWAB consisting of the vehicle fleet was sold off to optimize the leverage structure. Johan, Peter, and the rest of the Eleda team has since continued the M&A strategy together with Altor and Eleda is today one of the leading infrastructure service groups consisting of seven regional companies and revenue of SEK c. 10 bn with strong margins.

5. Discussion

In this section we present our discussion based on our research questions outlined in the introduction. Furthermore, we discuss Triton's investment in Eleda in connection to the academic literature.

1) What value enhancing initiatives did Triton do in the investment in Eleda?

Already before the investment in Eleda was made (before the ownership phase), the deal team had developed a thorough plan for initiatives to generate sufficient returns in the investment. This can be linked to the conclusion from Biesinger, Bircan, and Ljunqvist (2020) that successful value creation often consists of executing a tailored combination of planned initiatives and a "hands-on" approach, which in turn drives returns. With reference to the three value creation levers (Kaplan and Strömberg, 2009), we believe Triton imposed value enhancing initiatives in all three.

For the ***governance engineering***, the controlling investment by Triton (>90% of votes) gave them control over the board, in which they constructed a new one including the presence of two members from Triton's deal team. This, control investment and construction of a new board with deep industry expertise, are customary initiatives in PE investments enabling active monitoring and control over the implementation of their value creation agenda (Jensen, 1989; Kaplan and Strömberg, 2009; Biesinger, Bircan, and Ljunqvist, 2020). The significant reinvestment by key management (giving higher than the average c. 15% equity ownership in PE deals) implied not only sharing of significant upside but downside as well (Kaplan and Strömberg, 2009). This governance tool is widely used in PE investments, and the illiquid nature of it reduces the incentives to manipulate short-term performance (Kaplan and Strömberg, 2009; Biesinger, Bircan, and Ljunqvist, 2020). The MIP in Eleda was also wide, not just for top management, which was due to the decentralized business model and the important work being done throughout the organisation by e.g., local project managers. Being offered to participate in the MIP provided strong incentives for these managers. Other customary PE governance initiatives included improved financial monitoring as well as budgeting and forecasting processes.

Early in the investment, chairman Mats were the interim CEO (working chairman). Later, Triton established slim central functions above the regional companies supporting the decentralized business model including a CEO, CFO, head of M&A/ business development and a few selected more roles. This approach, in our view, differs from a traditional buy-and-build strategy in which a single platform company already has or is complemented with these functions (Bain & Company, 2019) (see further discussion in the below operational engineering section).

Creative ***financial engineering*** was in our opinion of less importance for Triton in this investment compared to other investments they have done. The reason for this we believe was the focus on governance and especially operational engineering, which has become a differentiator for PE firms in their value creation (Hammer et al., 2017; Braun, Jenkinson, and Stoff, 2017; Døskeland and Strömberg, 2018). However, several "standard" PE initiatives were conducted which had important implications for the returns generated. The capital structure was financed with a combination of external debt, preferred equity, and common equity, which is customary in PE deals (Kaplan and Strömberg, 2009). This setup reduces the "free cash flow" problem, as Jensen (1986) highlighted, because they must comply with covenants and make interest- and principal payments. Additionally, the seniority of debt and preferred equity over common shares further directs decisions towards long-term value enhancing initiatives that align with the PE owner, as management investments are only valuable if enough value is generated (Kaplan and Strömberg, 2009). This structure also enabled a majority investment to be done with relatively less capital investment from Triton, as Kaplan and Strömberg (2009) describe as normal in PE investments. Furthermore, due to the inherent leverage component, the financing structure enhances returns (both ways) which enabled Triton to generate sufficient returns on its equity investment, which we otherwise believe would not have been possible. The different voting rights permitted Triton to control the company, which was important due to the limited lifetime of the fund with the urgency to implement the agenda and the exit decision playing a critical role for the returns (Kaplan and Strömberg, 2009).

Other financial engineering initiatives included the RCF to cover seasonal swings in the NWC levels. The reason for this was that the cash could be used to pay down debt or finance acquisitions instead of being tied up in NWC, which has a positive impact on the investment returns (e.g., in Triton's Base Case a major contributor of c. 0.9x in equity returns). This focus on cash management is an explicit value creation initiative for PE firms in the paper by Biesinger, Bircan, and Ljunqvist (2020), although the management in Eleda indicated in interviews that they would be able to handle seasonal swings themselves through their operational experience, without the need for the RCF. We believe that this was relatively more important for Triton than the management, as Triton as a financial investor needed to feel comfortable about these swings knowing the negative impact tying up too much capital would have on the returns. This is further strengthened by the fact that the potential financial investors that were in deep discussions with Triton to acquire Eleda decided to decline, likely due to not being comfortable with the seasonal swings and sometimes high NWC.

Financing the modest acquisition multiples with a combination of reinvestments from management, cash generated from the business, and increasing the leverage for the combined larger group was also a financial engineering that enabled expanding the group rapidly without increasing Triton's equity exposure too much. This we believe gave comfort to Triton in executing the acquisitive strategy without overriding any fund limitations in terms of capital invested in a specific investment.

Within the ***operational engineering*** lever, the main initiative was Triton executing the roll-up agenda. We considered this as successful as Eleda more than tripled in size from c. SEK 950m in sales only with Akea in mid-2017 to over SEK 3bn pro forma at the end of 2019. PE owners supporting their portfolio companies with M&A expertise and driving this initiative is something Biesinger, Bircan, and Ljunqvist (2020) find as a common way to accelerate top-line growth in PE investments. However, we believe that this acquisitive strategy differed compared to traditional PE investments, as it in our view was more of a hybrid between roll-up and buy-and-build (see Appendix 10). The roll-up portion included acquiring the regional companies and adding central functions on top, whereas the buy-and-build portion included pursuing smaller add-ons to these regional companies, thus a kind of hybrid strategy. To our understanding, the literature and practical applications have rather focused on the buy-and-build strategy for a long time, which lately has become more important in PE value creation (Bain & Company, 2019). We believe that the roll-up strategy has been less researched and historically less applied in practise, which was also something Triton indicated in the interviews.

> *"The idea then, often in private equity, was to acquire a platform which included all the functions needed to perform a buy-and-build, or you could strengthen them at the platform. This [roll-up] is another way where you buy several companies and put together something central on top of it, which has also become much more common since then but was not so obvious back then."*
> *– Per Frankling, interview 29th April 2022*

As management indicated in interviews, it would probably not have been possible to do this journey within this time frame without a PE firm entering as a new owner, which was also the reason why Peter looked for a new partner when he and Priveq sold Akea to Triton. Also, as many firms of Akea's size do not have sufficient internal M&A capabilities, doing this by themselves would likely require too much of management's attention, which could be dangerous for the core operations.

> *"We would not have been able to make the same journey [without a PE owner]. Had maybe worked but taken much longer time and would be a problem to finance everything. Admittedly, everything goes but it would be a process that could become cumbersome and then we might have lost out on production. If you lose out in production and do not focus on it, then you lose results and then it is not worth anything in the end. So, I think you need these, sometimes I usually say the boring old men who come with ties and suits. But they are simply needed and are very good, you should know. I have a lot of respect for them. But if you do not make the production work, they are not needed either. You have to generate money." – Peter Condrup, interview 30th March 2022*

The other operational expertise that Triton possesses through their wide network and strong internal resources was not really utilized in the Eleda investment, which we relate to the fact that the companies continued operating decentralized with the local manager making the decisions. Triton said in interviews that they were comfortable with local managers making decisions, which we believe is related to that Triton had significant experience with this kind of business model from previous investments and was rather "picky" with the acquired regional companies with regards to proven and strong management teams. Also, if the group would not have developed as strong as it did during Triton's ownership, then we believe that Triton would have taken a more "hands-on" approach, engaging their internal resources to make sure their investment returns were sufficient. It can also be viewed that Mats, with his previous relationship with Triton, took the role that otherwise a West Park member within Triton would have, thus in real acting on behalf of Triton.

Taken together, several value enhancing initiatives were performed, with most emphasis on operational and governance engineering. Also, these initiatives were executed without the need to deploy much of Triton's internal resources (except for the deal team's time and knowledge) which the deal team indicated differed from other investments.

2) How did Triton evaluate the exit alternatives and end up with an MBO?

According to our case study, key things to consider for a PE firm when exiting an investment includes deal certainty, expected returns (IRR and MOIC), the certainty of the expected returns, the ability to make a full exit, and overall fund strategy. These aspects we believe provided the foundation for Triton when evaluating the exit alternatives and deciding whether to do an exit at this stage. The alternatives were an IPO, trade sale (strategic or financial), MBO, and keep/recapitalize, with trade sale (to strategic buyer) being the most common route for a PE firm (Kaplan and Strömberg, 2009).

The Eleda investment deviated in terms of holding period being c. 2.5 years compared to the average holding period of c. 4.5 years (Bain & Company, 2021). We believe this could be related to the process of fundraising for the second fund within the TSM strategy. In December 2019, no company had been realized from TSM I, and by therefore exiting Eleda and realizing an IRR well above the targeted return, Triton could create a tailwind in the fundraising process for TSM II. This is in line with Chung et al. (2012), Jenkinson and Sousa (2015), and Barber and Yasuda (2017), showing that the ability of GPs to raise capital for future funds is dependent on the performance of the current funds, with emphasis on realized returns. A decision to exit or not is often partially driven by the process of raising the next fund (Jenkinson and Sousa, 2015), but the returns need to be sufficient as well, otherwise it will not have the impact needed. Interestingly, our interviews with Triton indicated that they indeed saw a lot of acquisitions and value creation initiatives left to do with Eleda. We consider this as further evidence that the decision to exit mainly was driven by fund strategy. However, Triton had still executed the value creation initiatives that were planned as well as surpassed the Upside Case in terms of the number of acquisitions in just c. 2.5 years instead of 5.

> *"We had achieved what we were supposed to and what was said with the case. From that perspective, it was absolutely the right time to make the exit and there were strong reasons to do so. It was good to have a successful early exit also as it was the first investment in our new fund and the approaching fundraising for the next fund. There were fund-based reasons for doing so, but at the same time it was clear that it could just as well be a good situation to make an exit from the perspective of the individual business. […] With that said, we saw that there was still much more to do" – Henrik Tholander, interview 28th March 2022*

In terms of exit alternatives, the MBO was likely found most attractive due to the speed of the transaction and high certainty following the proof of financing from management. As was mentioned in interviews with the deal team, there was also some concerns about if Triton would reject the management team's offer how the relationship would be affected. This uncertainty also provided reasons for why the MBO was attractive. However, we cannot rule out the fact that proceeds (MOIC), potentially could have been higher if Triton would have stayed as an owner of Eleda, but likely the IRR would go down due to the time component of it. This trade-off between maximizing value and certainty (and immediacy) of exit routes is shown by Jenkinson and Sousa (2015) to relate to the structure of PE funds with GPs earning carried interest based on the performance of the fund above a certain hurdle, measured as IRR. Therefore, the deal certainty and fast process that the MBO provided combined with realizing a very attractive IRR weighted heavier than the potential excess MOIC in other exit alternatives in the future. Phalippou (2008) highlights the drawback on performance and compensation based on IRR for PE funds, where incentives for the asset managers could differ from the investors in the funds. We do however believe that the investors in the TSM I fund were more than pleased by Triton successfully realizing attractive returns in the first ever investment in TSM I, well above the required return and setting the tone for the remaining investments in the fund.

Triton’s main route initially was an IPO that had several pros such as increased publicity, access to capital for further acquisitions and the ability to participate in further upside, in line with Brau and Fawcett (2006). But this track was not realized due to the external environment being unfavourable at the time and the other alternative that came up offered a quicker and more certain exit, which is in line with Jenkinson and Sousa (2015) explanation for PE firms exploiting “windows of opportunities”. The other alternatives including trade sale and re-capitalization we believe was not materialised mainly due to deal uncertainty and timing, as Triton had decided to sell at this stage given realizing attractive returns would facilitate the fundraising.

3) *How did the management of Eleda evaluate the buyout opportunity?*

It has been shown that a PE firm selling to management is uncommon accounting for only c. 1% of all LBO deals between 1970-2007 (Kaplan and Strömberg, 2009). In our case study, the management team of Eleda, with Peter and Johan as the leading forces, had a different opinion than Triton in terms of exit. While Triton focused on the IPO as the main route, the management felt that they were not ready for an IPO and that the firm would suit better in a private environment compared to a public one to continue the acquisitive strategy as it would be easier due to less public scrutiny.

We believe that management might also have felt that the level of ambition differed between them and Triton in terms of how big they wanted to grow Eleda. This could be linked to the structure of PE funds having a limited lifetime (c. ten years) and the overarching goal to generate returns to the investors (LPs) (Døskeland and Strömberg, 2018). Although Eleda was the first investment in the TSM I fund which still had c. 7-8 years left until being dissolved, it could be viewed from management’s perspective that Triton had a relatively shorter-term focus to exit to generate a solid realized return to investors which was good for the fundraising process for TSM II as explained earlier. This stands in contrast to management which focused on what was best for the longer horizon and from a business operation perspective to continue developing the company.

Our findings also support this as the management team had invested a significant fraction of their wealth in the company, owning a significantly higher stake than normally in PE owned companies (Kaplan and Strömberg, 2009), and therefore were privately financially dependent on the long-term success. During our interviews with management, it was mentioned that they thought Eleda had outgrown TSM I and that it was unlikely for Triton to invest further. For this reason, they might also have felt that Eleda could fit better with a different ownership. However, in interviews with Triton, they did not share this view that Eleda had "outgrown" the TSM I fund. It was potentially true in terms of revenue (c. SEK 3bn), but since Triton focus mainly on the equity exposure, which did not increase when Eleda grew by acquisitions due to funding coming from management reinvestments, Eleda cash and new debt, the exposure was not at all considered too high.

According to our case study, the main advantage of doing an MBO from a PE firm is the fact that no due diligence is needed making it possible to increase the speed of the transaction, which we believe in this case was attractive for Triton and differentiated management in the sales process. Johan also highlighted during the interview that the timing does not really matter to the same extent as when doing an IPO. The reason for this is that the sole focus in the MBO is to do what is best for the business operation as opposed to generating returns. Our findings also point at the fact that to make this kind of transaction, a financing solution needs to be in place which requires a good relationship with banks as well as a proven ability to do this kind of transaction, otherwise it is likely impossible to do.

> *"A prerequisite for being able to do an MBO is that you are a large owner from the beginning, have a strong bank relationship, and a proven ability to do these kinds of transactions, otherwise it is probably impossible to be able to raise the capital needed." – Johan Halvardsson, interview 8th March 2022*

From the management team's perspective, our findings are in line with Fidrmuc et al. (2013)[7], who shows that management tends to do a traditional MBO (from a *public firm*) when they are less financially constrained and the management already own a large

[7] Literature on MBOs from a PE firm is scarce to our knowledge, therefore connections to this paper is made.

fraction of the equity, which was evident in Eleda. Furthermore, the management team was deemed strong with backgrounds from big corporations (e.g., PEAB) indicating that they had knowledge about following KPIs and other types of financial reporting, which generally might not be so prominent in smaller firms. We believe this facilitated the transaction as financial reporting and coping with covenants is often a part of the financing solution one can receive from banks. Additionally, increasing the somewhat moderate leverage in the group during Triton's ownership would further contribute with financing the MBO. Lastly, since management prior to this stage had generated proceeds from previous transactions (e.g., when Triton acquired Akea or MEAB), their abilities to finance the transaction differed from a traditionally "employed" management team in our view.

6. Conclusions

This paper analyses Triton's investment in Eleda and focus on the value enhancing initiatives and the exit situation from the perspective of Triton and the management team. The investment was a success for Triton in terms of returns, where they successfully executed a rapid roll-up strategy with a decentralized business model for Eleda, more than tripling revenue to c. SEK 3bn in 2019 from mid-2017 with kept focus on profitability. A range of value enhancing initiatives was planned and performed in line with Kaplan and Strömberg's (2009) governance, financial, and operational engineerings. These initiatives were performed without deploying much of Triton's internal resources, except for the deal team's time and knowledge. In terms of exit, we find that the decision from Triton's point of view mainly was based on fund strategy in which they needed a strong realized investment in TSM I to facilitate the process for fundraising TSM II. However, Eleda as a business itself was ready for an exit at this stage and the value creation plan set out was also achieved after only c. 2.5 years. Triton was therefore able to realize an IRR well above required targets, further supporting the exit decision from the view of the individual business. The MBO was seen as most attractive at the time mainly due to the speed and certainty of the process. From the perspective of the management team, an MBO is an unusual transaction that was made possible due to already being significant minority owners, having a good bank relationship, and a clear ability to do large transactions. Triton prepared for an IPO, but management felt they were not ready for this. With the possibility to acquire the company from Triton themselves, management decided it was the right thing to do. We see this as a win-win result, where the exit process eventually fulfilled both parties' needs and preferences, marking the end of a successful partnership.

There are several interesting areas for further research. During interviews with management, the effects relationship/ dynamics between PE investment professionals and the founders of founder-led businesses have on the outcome of an investment were discussed, which we do not cover in this paper and would be an interesting area to research further. Moreover, continued research about the driver of MBOs from PE firms would be of interest, both from the viewpoint of management and the PE firm. Additionally, the kind of hybrid acquisitive strategy applied in Eleda would be an interesting topic as it differs from traditional acquisitive strategies.

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8. Appendix

8.1. Triton's Eleda deal team

Appendix 1
Eleda deal team

	Roles at Triton (as of 2017)	Selected previous experiences
 **Per Frankling**	▪ TSM IAC member ▪ Head of TSM Nordic ▪ Investment professional ▪ Deal captain, Board member Eleda ▪ Joined Triton in 2016	▪ CEO Creades ▪ Investment director Ratos ▪ Associate McKinsey & Company ▪ Senior associate Arkwright
 **Henrik Tholander**	▪ Investment professional ▪ Board member Eleda ▪ Joined Triton in 2017	▪ Head of transactions OX2 Wind ▪ Partner Proton Equity Partners ▪ Investment director Capman ▪ M&A analyst HSBC
 **Sara Damberg**	▪ Investment professional ▪ Joined Triton in 2017	▪ Associate Bank of America Merrill Lynch

8.2. Overview of Eleda group and regional companies

Appendix 2
Overview of Akea

Akea overview

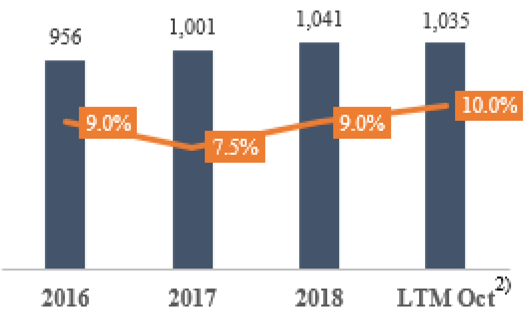
A regional leader in southern Sweden

akea

Key facts

- Founded in 2008
- Mainly focusing on excavation services within cables (fibre and electricity) and civil works
- Strong local presence in southern Sweden
- Customers are primarily national fibre operators, but also municipalities and regional companies
- PE-owned by Priveq 2015-2017
- Strong management team with long-time entrepreneur Peter Condrup as CEO

Pro forma revenue and EBIT%[1)]

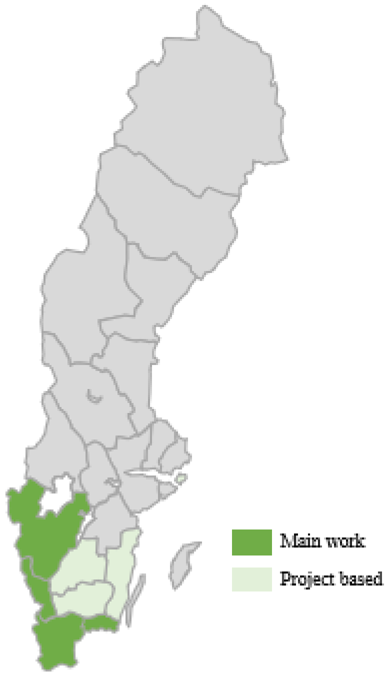


Main offering

Cable rollouts

Other excavation services and civil works

Geographical presence



CEO

Peter Condrup

With Akea since 2009

Previous experiences:
- CEO BMK
- CEO PNB

1) SEKm
2) Last Twelve Months as of October 2019

Appendix 2, continued
Overview of KEWAB

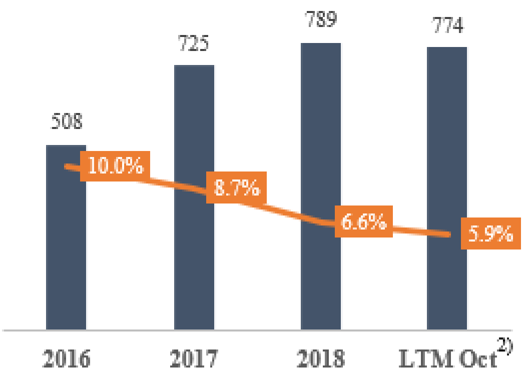
KEWAB overview

Strong actor in the Midwest of Sweden

Key facts

- Founded in 1965
- Mainly focusing on construction work within non-building construction, electrical power, and wind power as well as machine rental/sale
- Strong local presence in Midwest of Sweden
- Customers include large national companies and municipalities
- Experienced management team with CEO Fredrik Larsson

Pro forma revenue and EBIT%[1)]

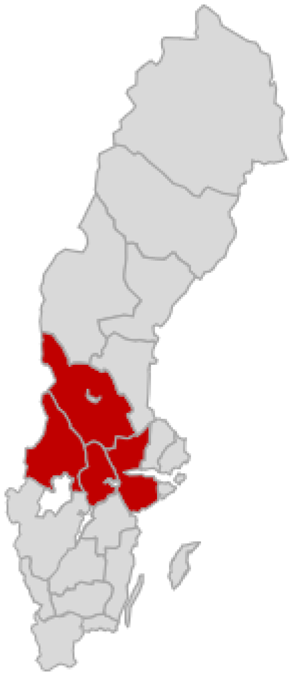


Main offering

Construction

Machine

Geographical presence



CEO

Fredrik Larsson

With KEWAB since 2013

Previous experiences:
- CEO for Mascus.com
- Co-founder of BytMaskiner.com and BytLastbil.com

1) SEKm
2) Last Twelve Months as of October 2019

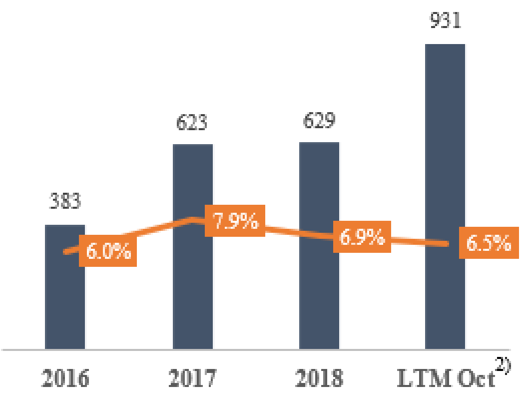
Appendix 2, continued
Overview of MEAB

MEAB overview
Leading player in the Gothenburg area

Mark & Energi Byggarna

Key facts
- Founded in 1991
- Mainly focusing on excavation and ground preparation services including district heating, railroad works, and water & sewage works etc.
- Strong local presence in the Gothenburg area
- Customers are mainly state- and municipally owned companies
- Strong management team with CEO Johan Halvardsson

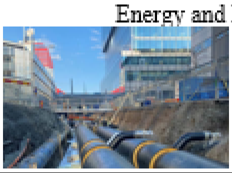
Pro forma revenue and EBIT%[1)]

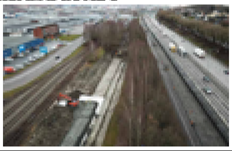


Main offering

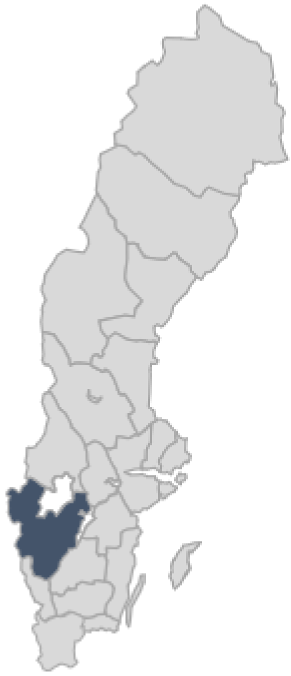
Construction

Energy and Infrastructure





Geographical presence



CEO

Johan Halvardsson

With MEAB since 2013

Previous experiences:
- Skanska
- PEAB Industri

1) SEKm
2) Last Twelve Months as of October 2019

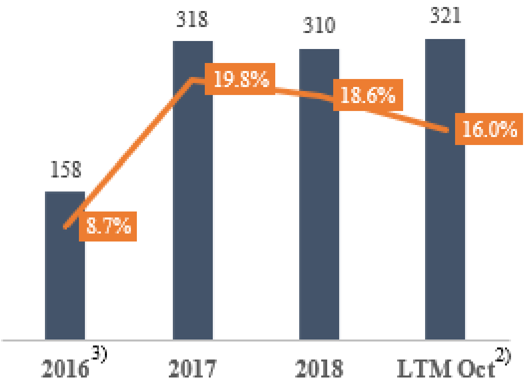
Appendix 2, continued
Overview of Salboheds

Salboheds overview
Strong local brand in the Västerås area

Key facts

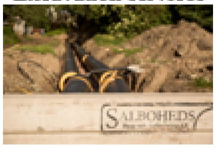
- Founded in 2005
- Mainly focusing on excavation within water and sewage, district heating, infrastructure as well as industry and data center
- Strong local presence in Västerås and surrounding areas
- Customers include both private and public sector clients
- Strong management team with CEO Dennis Peters

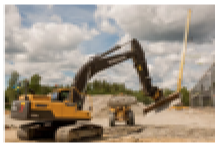
Pro forma revenue and EBIT%[1)]



Main offering

Excavation services





Geographical presence

CEO

Dennis Peters

With Salboheds since 2018

Previous experiences:
- Trigo Mätteknik
- +20 yers of industry experience

1) SEKm
2) Last Twelve Months as of October 2019
3) Estimated calendar year for 2016, fiscal year end in August.

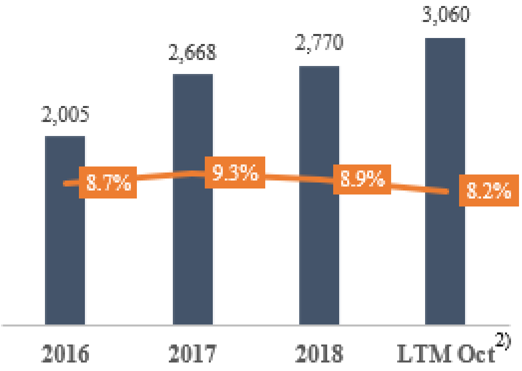
Appendix 2, continued
Overview of Eleda

Eleda group overview
A leading infrastructure services group

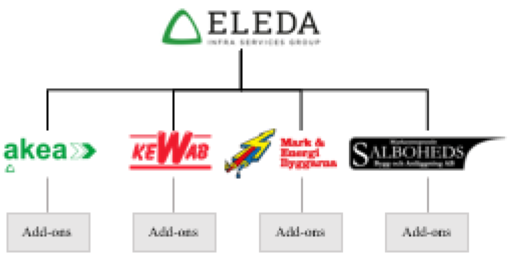
Key facts

- Established in 2017
- Specialized in services within excavation with focus on small to medium-sized projects
- Strong presence in mid to south of Sweden
- Decentralized business structure where the companies operates independently
- Slim central management team with primarily a CEO, CFO and head of M&A

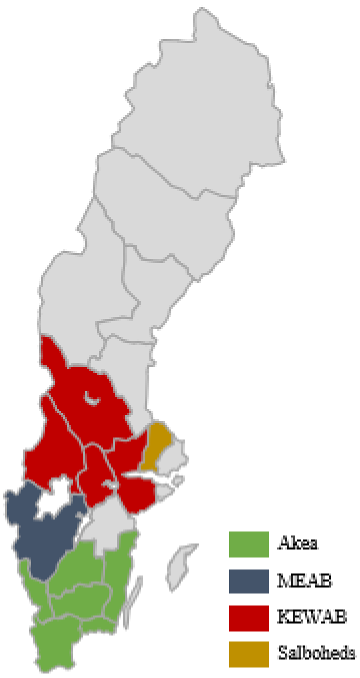
Pro forma revenue and EBIT%[1)]



Structure



Geographical presence



Group CEO

Johan Halvardsson

With Eleda since 2018
(CEO of MEAB since 2013)

Previous experiences:
- Skanska
- PEAB Industri

1) SEKm, including the regional companies historical financials
2) Last Twelve Months as of October 2019

8.3. Investment scenarios

Appendix 3
Overview of Investment Scenarios

Overview of Investment Scenarios SEKm	2015A	2016A	2017E	2018E	2019E	2020E	2021E	Acc. '17-'21	CAGR '16-'21
Standalone Case									
Net Sales	**664.0**	**956.3**	**1,148.1**	**1,027.3**	**1,048.1**	**1,134.4**	**1,133.1**	**5,491.0**	**3.5%**
% growth	56.7%	44.0%	20.1%	-10.5%	2.0%	8.2%	-0.1%		
EBITDA	**45.8**	**84.7**	**101.7**	**91.5**	**93.9**	**102.2**	**102.6**	**491.9**	**3.9%**
% margin	6.9%	8.9%	8.9%	8.9%	9.0%	9.0%	9.1%		
EBIT	**44.0**	**82.2**	**98.7**	**88.8**	**91.1**	**99.2**	**99.7**	**477.5**	**3.9%**
% margin	6.6%	8.6%	8.6%	8.6%	8.7%	8.7%	8.8%		
Capex	**-2.6**	**-5.4**	**-5.7**	**-5.1**	**-5.2**	**-5.7**	**-5.7**	**-27.4**	**1.1%**
% of sales	-0.4%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%		
NWC	**90.6**	**75.0**	**106.1**	**109.3**	**126.2**	**136.6**	**136.5**		
% of sales	13.6%	7.8%	9.2%	10.6%	12.0%	12.0%	12.0%		
Change NWC	n.a.	15.6	-31.1	-3.2	-16.9	-10.4	0.1		
OCF	**n.a.**	**94.9**	**64.9**	**83.2**	**71.8**	**86.1**	**97.0**		
% of EBITDA	n.a.	112.0%	63.8%	90.9%	76.5%	84.2%	94.5%		
Base Case									
Net Sales	**1,033.3**	**1,432.0**	**1,647.6**	**1,551.7**	**1,598.8**	**1,712.6**	**1,740.3**	**8,251.0**	**4.0%**
% growth	56.7%	38.6%	15.1%	-5.8%	3.0%	7.1%	1.6%		
EBITDA	**62.4**	**106.8**	**122.9**	**123.5**	**128.1**	**138.1**	**141.2**	**653.8**	**5.7%**
% margin	6.0%	7.5%	7.5%	8.0%	8.0%	8.1%	8.1%		
EBIT	**58.0**	**97.1**	**111.8**	**113**	**117.3**	**126.5**	**129.4**	**598.0**	**5.9%**
% margin	5.6%	6.8%	6.8%	7.3%	7.3%	7.4%	7.4%		
Capex	**-6.6**	**-9.4**	**-8.2**	**-7.8**	**-8.0**	**-8.6**	**-8.7**	**-41.3**	**-1.5%**
% of sales	-0.6%	-0.7%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%		
NWC	**120.3**	**128.0**	**197.7**	**194**	**199.8**	**214.1**	**217.5**		
% of sales	11.6%	8.9%	12.0%	12.5%	12.5%	12.5%	12.5%		
Change NWC	n.a.	-7.7	-69.7	3.7	-5.8	-14.3	-3.4		
OCF	**n.a.**	**89.7**	**45.0**	**119.4**	**114.3**	**115.2**	**129.1**		
% of EBITDA	n.a.	84.0%	36.6%	96.7%	89.2%	83.4%	91.4%		
Upside Case									
Net Sales	**1,402.6**	**1,907.7**	**2,185.2**	**2,157.0**	**2,276.2**	**2,471.5**	**2,581.9**	**11,671.8**	**6.2%**
% growth	n.m.	36.0%	14.5%	-1.3%	5.5%	8.6%	4.5%		
EBITDA	**79.0**	**129.0**	**147.8**	**167.4**	**177.8**	**194.3**	**204.3**	**891.6**	**9.6%**
% margin	5.6%	6.8%	6.8%	7.8%	7.8%	7.9%	7.9%		
EBIT	**72.0**	**112.1**	**128.4**	**137.5**	**146.3**	**160**	**168.5**	**740.7**	**8.5%**
% margin	5.1%	5.9%	5.9%	6.4%	6.4%	6.5%	6.5%		
Capex	**-10.6**	**-13.4**	**-10.9**	**-10.8**	**-11.4**	**-12.4**	**-12.9**	**-58.4**	**-0.8%**
% of sales	-0.8%	-0.7%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%		
NWC	**150**	**192.7**	**262.2**	**269.6**	**284.5**	**308.9**	**322.7**		
% of sales	10.7%	10.1%	12.0%	12.5%	12.5%	12.5%	12.5%		
Change NWC	n.a.	-42.7	-69.5	-7.4	-14.9	-24.4	-13.8		
OCF	**n.a.**	**72.9**	**67.4**	**149.2**	**151.5**	**157.5**	**177.6**		
% of EBITDA	n.a.	56.5%	45.6%	89.1%	85.2%	81.1%	86.9%		
Downside Case									
Net Sales	**1,033.3**	**1,432.0**	**1,647.6**	**1,474.9**	**1,451.1**	**1,486.9**	**1,455.3**	**7,515.8**	**0.3%**
% growth	56.7%	38.6%	15.1%	-10.5%	-1.6%	2.5%	-2.1%		
EBITDA	**62.4**	**106.8**	**122.9**	**87.7**	**78.9**	**84.1**	**81.8**	**455.4**	**-5.2%**
% margin	6.0%	7.5%	7.5%	5.9%	5.4%	5.7%	5.6%		
EBIT	**58.0**	**97.1**	**111.8**	**77.7**	**69.1**	**74.1**	**72.0**	**404.7**	**-5.8%**
% margin	5.6%	6.8%	6.8%	5.3%	4.8%	5.0%	4.9%		
Capex	**-6.6**	**-9.4**	**-8.2**	**-7.4**	**-7.3**	**-7.4**	**-7.3**	**-37.6**	**-4.9%**
% of sales	-0.6%	-0.7%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%		
NWC	**120.3**	**128.0**	**164.0**	**161.9**	**174.1**	**178.4**	**174.6**		
% of sales	11.6%	8.9%	10.0%	11.0%	12.0%	12.0%	12.0%		
Change NWC	n.a.	-7.7	-36.0	2.1	-12.2	-4.3	3.8		
OCF	**n.a.**	**89.7**	**78.7**	**82.4**	**59.4**	**72.4**	**78.3**		
% of EBITDA	n.a.	84.0%	64.0%	94.0%	75.3%	86.1%	95.7%		

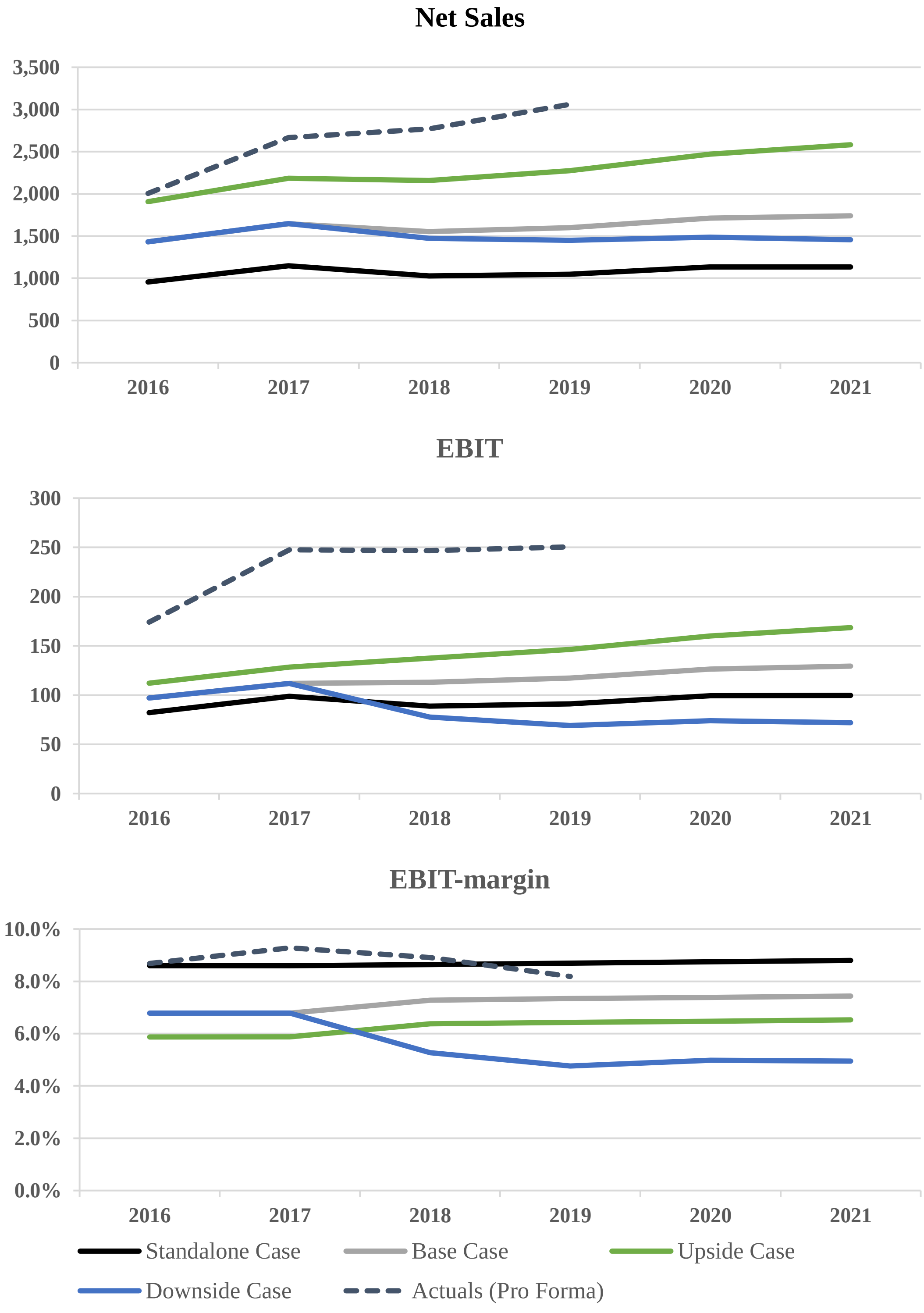
8.4. Board of Directors in Eleda

Appendix 4
Board of Directors in Eleda

	Other current roles (2019)	Selected previous experiences
 **Mats Paulsson**	▪ Chairman since 2017 ▪ Chairman: Caverion OY and Nordisk Bergteknik AB ▪ Director: Nordic Waterproofing AS	▪ Director: Acando AB, Bravida Holding AB, Ramirent PLC, and Peab Industri AB ▪ Managing director: Bravida AB, STRABAG AB, Peab Industri AB, and Swerock AB ▪ Deputy Managing director: Peab AB
 **Per Frankling**	▪ TSM IAC member ▪ Head of TSM Nordic ▪ Investment professional ▪ Board member Unident	▪ CEO Creades ▪ Investment director Ratos ▪ Associate McKinsey & Company ▪ Senior associate Arkwright
 **Henrik Tholander**	▪ Investment professional ▪ Board member Unident	▪ Head of transactions OX2 Wind ▪ Partner Proton Equity Partners ▪ Investment director Capman ▪ M&A analyst HSBC
 **Mikael Hägg**	▪ Director: Henri Lloyd Group AB, Hawoc Investment AB and Holmbergs First Holding AB ▪ Chairman: ANMIRO AB	▪ Chairman: Holmbergs Safety System Holding AB ▪ CFO: NVS Installation AB ▪ Finance Manager: ABV Rock Group Co. Ltd and NCC AB
 **Hans Svedberg**	▪ Lawyer and Partner at MAQS Law firm	▪ Lawyer Hamilton Advokatbyrå ▪ Lawyer Gruvstad och Lindgren

8.5. Performance compared to investment scenarios

Appendix 5
Performance compared to investment scenarios (SEKm)



8.6. Trading of public peers

Appendix 6

Peer trading as of May 28, 2019

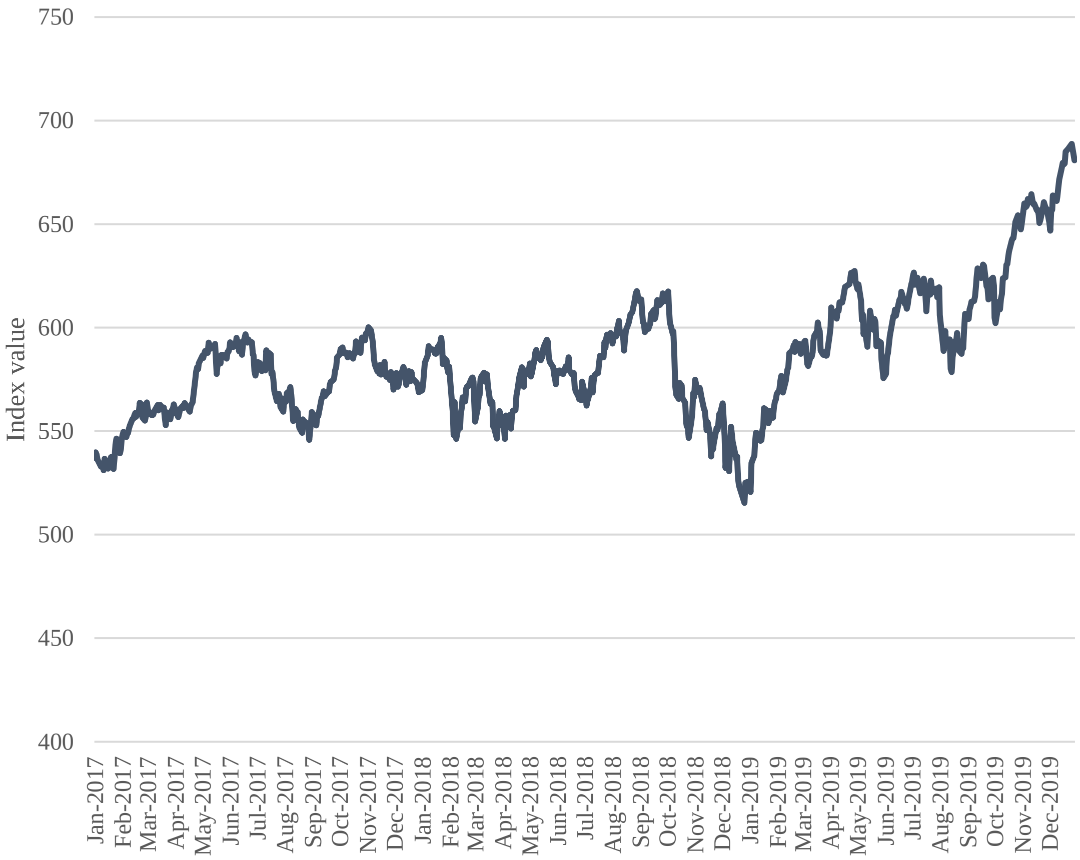
Peer multiples		Market cap.	EV	EV/EBITDA		EV/EBIT	
Company	**Segment**	**(EURm)**	**(EURm)**	**2019E**	**2020E**	**2019E**	**2020E**
Bravida	Installation	1,492	1,694	10.8x	10.3x	13.4x	12.7x
Instalco	Installation	392	467	9.6x	9.5x	11.5x	11.5x
NCC	Construction	1,506	1,790	8.2x	6.9x	13.4x	10.0x
Peab	Construction	2,107	2,688	8.7x	8.4x	11.0x	10.8x
AF Gruppen	Construction	1,645	1,738	9.3x	8.6x	12.3x	11.3x
NRC Group	Infrastructure	346	537	8.4x	7.1x	15.1x	11.2x
Ramirent	Rental	580	907	3.9x	3.9x	9.0x	9.4x
Cramo	Rental	786	1,606	5.2x	5.3x	12.0x	12.2x
Coor Service Management	Facility services	726	873	12.5x	11.4x	24.2x	21.0x
Green Landscaping Group	Landscaping	125	116	5.6x	4.8x	13.6x	20.9x
Average				**8.2x**	**7.6x**	**13.6x**	**13.1x**
Median				**8.6x**	**7.8x**	**12.9x**	**11.4x**

Peer trading as of December 5, 2019

Peer multiples		Market cap.	EV	EV/EBITDA		EV/EBIT	
Company	**Segment**	**(EURm)**	**(EURm)**	**2019E**	**2020E**	**2019E**	**2020E**
Bravida	Installation	1,688	1,945	12.3x	11.4x	16.3x	14.8x
Instalco	Installation	599	696	12.5x	12.3x	14.6x	14.5x
NCC	Construction	1,530	1,993	9.0x	7.4x	16.7x	11.9x
Peab	Construction	2,448	3,308	9.4x	8.8x	13.3x	12.2x
AF Gruppen	Construction	1,738	1,864	10.2x	8.4x	13.6x	11.2x
NRC Group	Infrastructure	259	480	12.6x	8.3x	nm	15.6x
Ramirent	Rental	993	1,432	na	na	na	na
Cramo	Rental	595	995	4.9x	5.0x	14.0x	14.1x
Coor Service Management	Facility services	713	887	12.8x	11.4x	23.0x	20.0x
Green Landscaping Group	Landscaping	114	111	5.7x	4.5x	12.9x	10.1x
Average				**9.9x**	**8.6x**	**15.6x**	**13.8x**
Median				**10.2x**	**8.4x**	**14.3x**	**14.1x**

8.7.Financial market development

Appendix 7
OMXSPI trading between 2017 and 2019

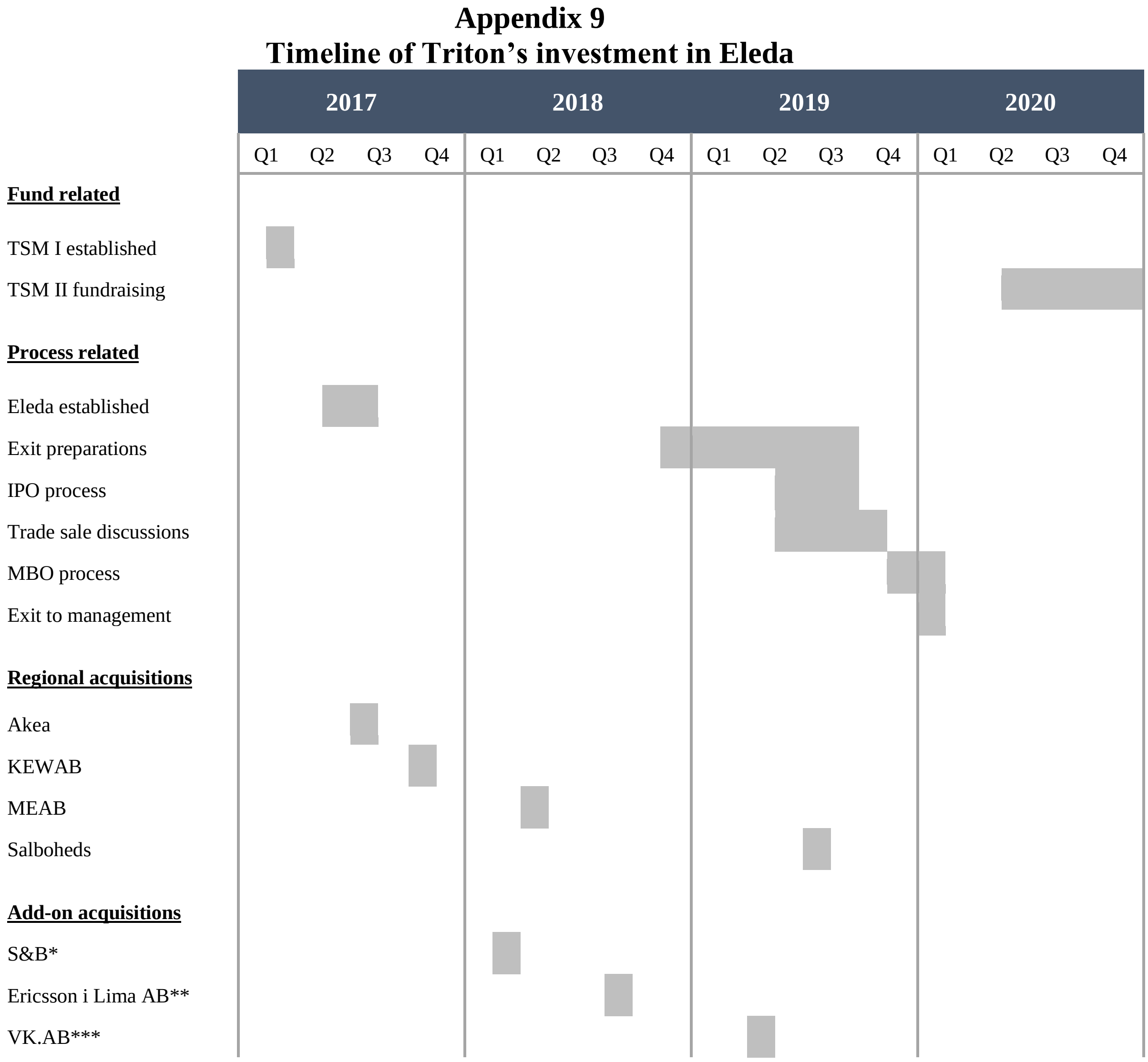


8.8. Overview of TSM I

Appendix 8
Overview of TSM I as of December 2019

Portfolio Company	Investment year	Region	Sector	Status
Eleda	June, 2017	Nordics	Business services	Unrealized
Univativ	July, 2017	DACH	Business services	Unrealized
BFC	February, 2018	DACH	Industrials	Unrealized
Unident	August, 2018	Nordics	Health	Unrealized
Norres	November, 2018	DACH	Industrials	Unrealized
Dantaxi	December, 2018	Nordics	Business services	Unrealized
MRH	January, 2019	DACH	Health	Unrealized
Norstat	December, 2019	Nordics	Business services	Unrealized
Inwerk	December, 2020	DACH	Consumer	Unrealized

8.9. Timeline of the Eleda investment



*Slam- & Brunnsrensning i Karlstad AB (KEWAB)

** (KEWAB)

** Västkustens Anläggnings AB (MEAB)

8.10.The acquisitive strategy

Appendix 10
Simplified overview of the acquisitive strategy in Eleda relative traditional buy-and-build and roll-up strategies