FINLATICS PROJECT 4

Case Study: Nordic Capital's Exit from Nycomed

Introduction

Nordic Capital, a leading European private equity fund, executed one of the most successful exits in the pharmaceutical sector by selling its stake in Nycomed to Takeda Pharmaceuticals in 2011. This strategic sale to another company resulted in a significant positive return for the fund. The following case study explores the details of this investment journey, the exit valuation, the rate of return, and the key drivers of success.

Background of the Investment

In 2005, Nordic Capital acquired Nycomed, a mid-sized European pharmaceutical company, for approximately $2 billion. At the time of acquisition, Nycomed was primarily active in Europe with a moderate product portfolio and limited international reach. Nordic Capital saw potential for operational enhancement, market expansion, and strategic acquisitions that could increase the company's value substantially.

Value Creation and Growth

Nordic Capital worked closely with Nycomed to implement several value-creating initiatives:

- **Operational Improvements**: Nordic Capital brought in experienced professionals to strengthen the leadership team and streamlined the company's manufacturing and distribution operations to increase efficiency and reduce costs.
- **Strategic Acquisitions**: A major step in Nycomed's growth was the acquisition of Altana Pharma's prescription drug business in 2007. This move not only expanded Nycomed's size and product base but also improved its positioning in both developed and emerging markets.
- **Global Expansion**: Under Nordic Capital's ownership, Nycomed significantly expanded into high-growth emerging markets such as Brazil, Russia, and China, where healthcare demand was rising rapidly.
- **Focused R&D**: Rather than competing directly with global pharmaceutical giants, Nycomed focused on specialty treatments and dermatological products. This allowed the company to capture niche markets with strong profit margins.
- **Licensing Deals**: Nycomed adopted a low-risk approach to drug development by entering licensing agreements, sharing costs, risks while accelerating time to market.

These strategies transformed Nycomed from a European player into a global pharmaceutical company with a strong presence in emerging markets and efficient operations.

Exit and Valuation

In 2011, after six years of value creation, Nordic Capital exited Nycomed by selling it to Takeda Pharmaceuticals for a total consideration of $14 billion. This was a full exit, with Nordic Capital completely divesting its stake in the company.

Rate of Return Calculation

To evaluate the financial success of the exit, we can calculate the Compounded Annual Growth Rate (CAGR):

- **Initial investment**: $2 billion
- **Exit proceeds**: $14 billion
- **Holding period**: 6 years

Using the CAGR formula:

CAGR=(142)1/6−1=71/6−1≈0.353 or 35.3%CAGR=(214)1/6−1=71/6−1≈0.353 or 35.3%

This means Nordic Capital achieved an annualized return of approximately 35.3%, which is considered exceptionally high for private equity investments.

Post-Exit Ownership

After the sale to Takeda, Nordic Capital did not retain any ownership in Nycomed. This was a full exit, and the entire stake was transferred to Takeda. Therefore, all returns were realized at the point of exit, and there was no further exposure to Nycomed's performance post-transaction.

Key Success Factors

Several factors contributed to the strong outcome of this investment:

- **Strategic Timing**: The exit was well-timed in a period when pharmaceutical companies like Takeda were seeking global expansion, and Nycomed fit strategically into that plan.
- **Operational and Market Transformation**: By scaling operations and expanding geographically, Nycomed became a much more valuable asset than it was at the time of acquisition.
- **Risk Management**: Nordic Capital avoided heavy investment in high-risk drug development by leveraging licensing and partnerships.
- **M&A Execution**: The acquisition of Altana Pharma played a pivotal role in making Nycomed a truly global company and increasing its attractiveness to potential acquirers.

Conclusion

Nordic Capital's exit from Nycomed through a strategic sale to Takeda stands as a textbook example of value creation in private equity. From acquiring a modest European company for $2 billion to selling it at $14 billion six years later, the journey reflects successful execution of growth strategy, operational improvement, and market positioning. The compounded annual return of over 35% and a full exit with no retained shares highlights the strength of the deal. This case not only exemplifies a successful exit but also demonstrates the fundamental principles of private equity value creation in practice.