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Thule

In late October 2008, Hans Eckerström and Ulf Rosberg considered what Nordic Capital[1] should do with its investment in Thule, a Swedish outdoor, car accessory and roof box manufacturer. Nordic Capital, one of the premier private equity firms in the Nordic region, had acquired Thule in tertiary buyout in July 2007. Now Eckerström and Rosberg had been working with the investment for almost 18 months, but as financial crisis and global recession loomed, the firm's situation was increasingly difficult.

Thule had been acquired from another private equity fund, Candover, in a highly leveraged transaction, with senior debt syndicated from a group of mostly Nordic banks and mezzanine debt financing from US bank Goldman Sachs. Soon after the acquisition had been completed, increasing stresses developed in the global financial system, starting in US residential housing markets. The S&P500 had dropped 15% so far this year and showed exceptional volatility. Operational performance had also been disappointing. The 2007-2008 Northern hemisphere winter had been mild, hurting the snow outdoor-related business of Thule, and as business cycles weakened in key markets, Thule's financial performance had fallen short of expectations. Despite attempts by management to improve profitability, EBITDA was expected to be insufficient to cover interest and financial expenses for 2008.

By June 2008, Thule was in breach of its loan covenants, which gave lenders the right to accelerate loan repayment or seize Thule's operating assets, which could precipitate a bankruptcy. Management initiated negotiations with the company's lenders to avoid being forced into bankruptcy. In August, the company had signed a temporary stand-still agreement with its lenders. This had offered temporary respite until October.

To make matters worse, disruptions in global financial markets were accelerating. US investment bank Lehman Brothers filed for bankruptcy on September 15. Credit markets were now completely frozen, and the survival of many prominent banks around the world was put into question. Thule's banks had unknown exposures to troubled US securities, and might not be able to offer any flexibility. Goldman Sachs, which had provided Thule's mezzanine loan, was likely heavily affected by the developing crisis.

[1] Eckerström and Rosberg were employees of NC Advisory AB, the Swedish advisory company to the Nordic Capital Funds.

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Ulf and Hans, together with the rest of the board of Thule, had worked hard during the recent months to come up with a strategy for avoiding default and possible liquidation at a time of very low liquidity and unfavorable prices. Nordic Capital felt the Thule business had considerable future potential, and would like Nordic Capital to stay on as owners, if possible. On the other hand, Thule would need new equity funding or a substantial reduction of its debt burden. Nordic Capital felt that they could not motivate investing additional equity in the company unless the lenders would agree to some concessions in relation to their debt. In addition, another investment in Thule would bring Nordic Capital's total investment above the limit for how much money the private equity fund was allowed to put in one single portfolio company. As a result, the investors (limited partners, LPs) in the fund would have to agree to waive this for such an investment to be possible. This would not be an easy task. The fund, Nordic Capital VI, had approximately 60 different institutional investors from all over the world among their limited partners.

So far, the senior bank syndicate had indicated resistance to making any write-downs. Goldman Sachs was apparently exploring various options, including taking over the company. However, Goldman Sachs' faced unprecedented funding and operational pressures in the wake of the Lehman bankruptcy. This might could affect their position and negotiating stance.

The stand-still agreement between Thule and its lenders expired on October 10, and the banks now threatened that unless an agreement could be reached on a financial restructuring by November 17, they would enforce their security interest and attempt to seize Thule's assets. A new meeting with the lenders was scheduled in a few days, and Nordic Capital would need to be able provide an acceptable proposal to avoid losing the company.

Given the bank deadline, Thule's financial distress would have to be addressed within the next few weeks. Would the lenders be willing to write down the value of their debt or make other structural changes, and if so, in exchange for what? What should the new financial structure look like, and should the restructuring best be done within the context of a Swedish bankruptcy filing, or organized out of court? Would Hans and Ulf be able to produce a viable and convincing investment case and recommend to the fund that Thule really was worth enough to warrant additional funding, and could Nordic Capital maintain a meaningful stake afterwards? And would Nordic Capital's LPs agree to a waiver so that the fund could make the necessary investment? At any rate, there was very little time and a decision had to be made quickly.

Thule AB

Thule AB developed and manufactured carrying and towing equipment and related retail products, mainly for use with cars. Product lines included load bars and roof racks, water sport carriers, bike carriers and ski boxes as well as a newly acquired business of laptop bags and camera bags. The company also provided water sports products, snow chains, luggage, recreational vehicle (RV) accessories and trailers for horses and boats.[i]

Members of the Thulin family founded the company Metallfabriken Thule AB in 1942, in Malmö, Sweden, to manufacture various metal products, including fishing equipment. The firm started making roof racks in the early 1960's, first for the small domestic market. Thule expanded into US and Japan in the 1970's.

Distribution was mainly through distributors to retail stores. In 2006, a concept store devoted entirely to Thule products was opened in Berlin, Germany. Thule also offered its products to car manufacturers marketed under the car companies' own brand names.[2] See **Exhibit 2** for performance and management projections as of 2007.

A series of ownership changes

The Thulin family sold Thule to a Swedish publicly listed company, Eldon, in 1979. Under Eldon's ownership, the firm continued to grow, both organically and through smaller acquisitions (see Exhibit 1 for selected recent acquisitions). Thule acquired roof box manufacturer Karrite in 1997 to become the largest box company in the US market.

In September 1999, the private equity fund EQT acquired Eldon and took it private (valuing Eldon just below SEK2B). In connection with this transaction, Thule was spun off and again became an independent company. During EQT's ownership Thule underwent an extensive development program, which involved building three factories in Poland, establishing exports to new markets, broadening the product offer and making two supplementary acquisitions, the snow chain manufacturer König S.p.A and the trailer manufacturer C&C Distributors Inc.[ii] Between 2000 and 2004, the company increased its revenues from 2,317 MSEK in 2000 to 2,788 MSEK in 2004. EBITDA margins increased from 11.8% to 14.2%.

In December 2004, EQT sold Thule to the U.K. private equity fund Candover at a valuation of 4,150 MSEK in enterprise value.[iii] Candover accelerated Thule's growth acquisition strategy, and the company undertook eight acquisitions of various auto accessory and car trailer companies as well as the bag manufacturer Case Logic, over the next two and a half years. By mid-2007, Thule had around 4,000 employees and had operations in Western Europe and the Americas, as well as sales offices in Asia and Africa. Thule's product lines now included trailers, RV accessories, car rails, car rack systems, towing systems, cargo management, and snow chains. (See exhibit 3 for an overview of Thule's business units.) The company had grown to sales of almost 6,700 MSEK for FY 2006. The rapid sales growth had largely been due to the multiple acquisitions, although organic growth 2004-2006 had still been substantial at 8% per year on average. At this point, Candover wanted to exit the Thule investment and was planning to take it public in mid-2007. Nordic Capital, who had been considering buying the company already when EQT exited in 2004, saw this as an opportunity to acquire Thule.

Nordic Capital's acquisition of Thule

In the fall of 2007, Candover was in preparations for an initial public offering (IPO) of Thule on the Stockholm Stock Exchange. Nordic Capital expressed an interest of acquiring the company. In response, Candover hired Goldman Sachs to explore the option to sell the company in a private sale. Goldman Sachs offered staple financing for the deal and suggested that an auction, open to more bidders, could value the firm around SEK 12.5 billion. Nordic Capital then offered SEK 12.7 billion, and Candover accepted after input from Thule's management and board. The IPO was scrapped.

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[2] These products were called "original equipment manufacturer" (OEM) when products become part of the car on the assembly line and "original equipment supplier" (OES) when products were sold separately as accessories or add-on products.

Nordic Capital

Nordic Capital was founded in 1989 in Stockholm as one of the first private equity funds in the Nordic region. The focus of the most recent fund, Nordic Capital VII, was to primarily invest in European companies, especially companies in the Nordic region and healthcare companies across Europe. The philosophy involved investing in a concentrated fashion and in partnership with management teams, aiming for both strategic development and operational improvements.[iv] By 2007, Nordic Capital ranked number 45 among funds worldwide in terms of total funds raised.

The first five funds of Nordic Capital were widely considered to have outperformed the overall private equity market. Moreover, none of the investments Nordic Capital had undertaken since 1989 had ever resulted in L.P.'s or lenders losing money.

At the time of Nordic Capital's investment in Thule in 2007, they had just raised their sixth fund, with total commitments of €1,900 million (around SEK 17.6 billion) from approximately 60 international institutional investors (see **Exhibit 4a** for historical fund sizes and **Exhibit 4b** for limited partners in the Fund VI). About 40% of commitments were from the US, 20% from the Nordic region, and 30% from the rest of Europe. By mid-2007, Nordic Capital VI had made investments in four portfolio companies out of a target of 8-15 companies in total.

By 2008, Capital was now in the process of closing their seventh fund, with a stated target of €3.7 billion (expected to close at a fund size above €4.0 billion due to strong investor demand).

Nordic Capital's acquisition rationale

Nordic Capital' partners had considered the price paid for Thule high (an implied Enterprise Value of 13.2 times EBITDA over the last 12 months). Nevertheless, Thule's long-term prospects appeared very promising, making the deal worthwile. This positive view of the business built on a number of factors. First, underlying trends seemed favorable, both in outdoor leisure activities and in motor travel. Recreational spending in general had been steadily increasing in the last decade due to the growing wealth of the population, both globally and in Thule's core markets, and outdoor leisure activities were expected to grow especially fast. In parallel, motor travel was steadily increasing in many countries, increasing market size for Thule's auto-related products. The global trend toward smaller vehicles could also be expected to require innovative and clever cargo solutions.

Second, Thule had very strong brands. The main brand was well known in several consumer markets and was associated with high quality. Out of the seven market segments where the company operated, Thule was the leading brand in five, and held the second position in the remaining two segments.

Third, Nordic Capital believed that further operational improvements were possible. Nordic Capital felt efficiency could be further improved. The recent acquisitions of Thule had not yet been completely integrated, and full synergies had yet to be realized. Costs could be reduced with more efficient sourcing and purchasing and through the implementation of lean management practices. Nordic Capital also believed that Thule would prove an excellent platform for further add-on acquisitions, due to it strong brand and its track record in integrating acquisitions. In particular, new acquisitions could add new complementary products and help achieve economies of scale in distribution, logistics and manufacturing. A broader product offering could create more interest from retail channels and increase the exposure of Thule's brand in outlets.

Fourth, the business was considered to have strong underlying cash flows, due to low capital expenditures and limited working capital requirements. In addition, Nordic Capital did not believe cyclicality was a major issue. Historically, Thule's business performance had been largely uncorrelated with macroeconomic indicators. Together, this should allow the company to support considerable leverage.

Fifth, Nordic Capital had strong confidence in the existing management team, whom they considered to be both highly competent and ambitious. Also, although management would sell shares in the acquisition, they would re-invest half of their sales proceeds (together with other minority investors such as previous managers and board members approximately SEK 500 million) in company equity, and should therefore be highly motivated going forward. Nordic Capital planned to keep the current chairman of the board, the CEO of Volvo Cars, Fredrik Arp, and would add one to two additional members with relevant experience.

For these reasons, Nordic Capital had considered revenues of SEK 10 billion and 15% operating margins possible goals for the medium run: "Thule holds some of the characteristics that LBO sponsors are looking for that are able to support high levels of debt: Underlying secular growth trends; Strong defendable market positions; High cash conversion".[v]

The 2007 transaction

Nordic Capital's acquisition of Thule involved several forms of debt. A syndicate consisting of seven Nordic banks, led by Nordea Bank, had provided SEK 6.4 billion in senior secured financing for the deal (including a Revolving Credit Line, Term Loans A, B, and C, and a second lien tranche) at an average 2.5% spread above the STIBOR reference rate, for a total of approximately 6.5% at the time. In addition, Goldman Sachs Mezzanine Partners provided an additional SEK 2.05 billion in mezzanine financing at an interest rate of 11.75%, (cash interest of 8.5% and PIK[3] interest of 3.25%). Total debt amounted to 8.7 times adjusted 2007 pro forma EBITDA (9.3 times 2006 EBITDA). The bank debt had a number of covenants attached to it, and breaching any of these would allow the banks to demand immediate repayment of the loans. In particular, if EBITDA fell more than 15% below pro forma numbers, the company would violate its maximum debt-to-EBITDA covenant requirement.

The rest of the financing was in the form of equity of SEK 4.2 billion, out of which SEK 3.53 billion was provided by Nordic Capital Fund VI. The size of the investment was approximately 20% of the total commitments for the fund, which, under fund rules, constituted the maximum size for an individual investment. Goldman Sachs invested SEK 0.23 billion and approximately 80 current and previous managers and directors of Thule invested the remaining 0.44 billion, rolling over about half of their interest in the company. 80% of Nordic Capital's investment was in the form of a shareholder loan (with a 10% PIK interest), which counted as equity under covenant rules. Management had approximately 40% of their funding in shareholder loans. Ownership of the common equity after the buyout was thus distributed as follows: Nordic Capital Fund VI owned 68% of shares, Goldman Sachs

[3] PIK, or pay-in-kind, interest, referred to a debt instrument where instead of interest payments, an addition was made to outstanding principal whenever interest came due.

owned 5%, and management and other minority investors owned 27%.[vi] See **Exhibit 5** for the transaction structure.

To support this price and capital structure, Nordic Capital performed various financial analyses of what the return on the investment would be under various assumptions. Detailed projections for a base case are in **Exhibit 2**. The base case assumed sustained sales growth until 2011. In addition, Nordic Capital considered an upside scenario with improved EBITDA margins, a scenario with more rapid growth through a set of medium sized acquisitions, as well as a downturn scenario with flat sales in 2008 and 2009 and then a resumption of sales growth. This scenario also involved a drop in EBITDA margins by around 1% for these two years. Based on comparables analysis, an exit multiple of 10-13 times EBITDA was considered reasonable around 2011. (See **Exhibit 6** for comparable companies.) In the base case assuming an exit in 2011, the analysis indicated that the investment would pay back between 1.6 and 2.2 times Nordic Capital's investment depending on the exit multiple, yielding a IRR between 11% and 20%. In the upside and add-on acquisition cases the return could be as high as 2.8 times and 26% IRR.

The binding agreement to acquire Thule was signed on May 31, 2007, and the deal finally closed on July 27 the same year. Nordic Capital appointed Ulf Rosberg and Hans Eckerström to Thule's board of directors while Fredrik Arp, CEO of Volvo Cars, remained chairman. (See **Exhibit 7** for a list of directors).

Thule after the acquisition

For the first few months after the acquisition, Thule developed well. The company continued to show high organic growth through the important summer season. However, changes in the foreign exchange markets (weakened USD, which accounted for a large fraction of sales, and strengthened Polish Zloty where Thule had manufacturing facilities), and increasing input prices (primarily steel and aluminum) were beginning to pressure earnings. In the December board meeting, Hans and Ulf, as board members, realized that the organization needed to be more streamlined following past years' acquisitions, and that the company could not allow overhead to grow further and needed to prepare for a downturn in the economy.

In early 2008, several negative developments occurred in rapid succession. First, US financial markets entered a period of considerable turmoil. US residential housing markets had peaked in late 2006, and subsequent price drops led to accelerating household mortgage defaults. This in turn produced losses for investors in so-called mortgage backed securities. As the effects were felt in many important financial institutions, the stock market fell and lending contracted. Prominent broker Bear Stearns had been sold to J.P. Morgan in March as the Federal Reserve attempted to contain the trouble. As non-financial parts of the US economy became more affected, the risk of a recession rose. Vehicle sales and consumer confidence started falling in the US and then in Europe. Additionally, Northern hemisphere snow fall in the winter of 2007-2008 was unusually low, limiting retail demand for many products, such as car roof ski boxes. Although demand for Thule's products initially held up surprisingly well, it eventually started to fall as spring progressed.

The original investment thesis that the entire Thule group was a non-cyclical business was clearly wrong. The weakness in consumer and automotive markets had clearly impacted certain segments within Thule. Although the decline in sales was relatively modest given the circumstances and not necessarily a sign of a highly cyclical business, in combination with a very high leverage and high expectations on EBITDA growth this decline had a severe impact on Thule's financial situation. In particular the recently acquired US based tow-bar business under the Valley brand, the automotive dependent line-fit OEM business of integrated roof-rails and the fast growing Trailer division were underperforming significantly.

In March 2008, management, the Board and Nordic Capital realized that serious measures were needed to improve Thule's financial situation of the company to avoid ending up in financial distress in a number of months. As an initial attempt, they sought to identify promising add-on acquisitions. Two attractive acquisitions had letters of intent signed during March and April. These were expected to close at around 5.0x EBITDA, but were abandoned due to due diligence findings and a late change of mind by one of the sellers.

As the important summer season started during the spring it became apparent to everyone in May 2008 that Thule was performing well below plan and that Thule was facing significant profitability challenges to meet financial covenants on the debt.

The nature of Thule's problems

In May 2008, the board decided to bring in a turnaround consultant, Alix Partners, to do a review of the company's operations and future potential. The board particularly wanted to know whether it was possible to restore profitability at current sales volumes.

A first finding of the Alix analysis was that part of the reason for the profitability decline was that Thule, partly due to its decentralized management structure, had responded to increases in input prices too slowly. Given Thule's market leadership, price increases to restore margins should be possible going forward. The board and management therefore initiated a careful review process to identify key areas for pricing improvement as well as a procedure to improve pricing.

A second finding was that substantial efficiency improvements could be achieved through leaner manufacturing practices. Thule had historically based its competitiveness primarily on excellence in marketing and product innovation. During the execution of the buy and build strategy in 2004-2007, management had been less focused on improving operational efficiency, especially in some of the newly acquired entities. These were now under-performing. It appeared that there were management deficiencies and competence gaps in this area, which would need to be filled. Procurement was another area that had received less focus and where there were staffing needs. Management, on the advice of the board of directors, hired lean manufacturing and procurement experts and appointed a central head of operations in charge of all lean manufacturing and supply chain operations.

Overhead was another weakness identified by Alix. Thule had enjoyed a remarkable history of growth, and consequently had put less emphasis on cost efficiency. Overhead cost as percentage of sales had increased from 20% to 25% and there was significant room for improvement. As the group's scope of operations had become unwieldy, it was now necessary to restructure and streamline the portfolio of companies and brands. The board and management decided to immediately initiate an employee reduction program to reduce overhead.

Finally, the investigation concluded that working capital, which historically had been around 19-20% of sales, could be reduced. It was noted that the newly acquired businesses did not exhibit higher levels of working capital, but that there had been a lack of focus on cash generation during the buy and build phase. The board decided to implement working capital monitors, but they realized that further work needed to be done to get back to historical working capital levels. One current challenge, however, was that it was difficult to initiate working capital improvements in Thule's current financial state. A stronger balance sheet would facilitate negotiations with customers and suppliers.

The Summer 2008: Covenant breaches and stand-still agreement

In the first half of 2008, sales continued to decline, falling 10% below the previous year. EBITDA kept falling month-by-month. As the year progressed, it became clear that the target 2008 EBITDA of SEK 1.0 billion from the initial business plan was unrealistic, that the current EBITDA of 700 million could not be maintained and that EBITDA for the year would likely be 500-600 million.

By late spring, it was clear that the company was in financial distress, and that it was only a matter of time before loan covenants would be breached. This put considerable additional strain on the company's ability to operate. The board feared that key personnel would soon be leaving to look for other jobs, unless something was done. To retain a limited number of key senior managers, the board decided to award these a "restructuring bonus" contingent on successful turnaround of the company. Also, suppliers became wary in delivering to the company, since they feared that Thule would not pay them back, and credit insurers did not want to provide any insurance for Thule's trade credit.

On June 30, 2008, Thule defaulted on its Debt-to-EBITDA covenant. Nordic Capital engaged a financial restructuring specialist, Blackstone Debt Advisory, to assist Thule and Fund VI in the financial restructuring process. Blackstone contacted Thule's lenders to start negotiating a possible financial restructuring of the company. The banks were willing to waive the covenant breach temporarily, as long as it was remedied within the following two months. Essentially, Nordic Capital had two options: putting in more equity in the company, or raising new debt to repay the existing loans. If not, the lenders would enforce their contractual rights and demand immediate repayment of the debt at that point, effectively forcing the company into bankruptcy.

As the deadline to remedy the covenant approached, Thule was able to negotiate a stand-still agreement with the lenders on August 14. This meant that the lenders promised not to enforce their claim and demand repayment before October 10, which bought the company some time to try to come up with a financial restructuring proposal. During the stand-still period, the lenders hired their own financial advisors and performed a full due diligence on the company, including market, operational and accounting due diligence based on access to Thule's books and records as well as management.

A new investment case?

During the summer it became clear that the balance sheet of the group was becoming unsustainable, and that the amount of debt would have to be reduced. If Nordic Capital did not want to abandon Thule, it might have to consider increasing its investment. Nordic Capital had to assess the original investment hypothesis: leaving financial complications aside, was Thule still an attractive investment opportunity? Based on their own extensive analysis, as well as advice from Alix and information coming up in the lender due diligence, Nordic Capital concluded that there were several reasons to answer yes.

First, even though consumer confidence was exceptionally low currently, this was likely to be temporary. If Thule could transition from a more traditional car accessory supplier to a modern "active life-style" consumer brand, Nordic Capital believed the company would be well positioned to capitalize on trends favoring active life styles.

Second, Thule was still the market leader in almost all of its business activities in an industry that was expected to continue to have fundamental demand growth. Thule's strong brand name, high product innovation and larger distribution reach, compared to competitors, would enable the company to have pricing power to increase the effect of future volume growth.

Third, in order for Thule to make the transition into an "active life-style" consumer brand, further acquisitions and selective divestments would be required. Nordic Capital believed that the current credit crunch and depressed M&A market could provide significant opportunities for growing the company through acquisitions without overpaying in such transactions.

It was clear, however, that further measures would have to undertaken in order to turn the company around. Past acquisitions would have to be integrated to realize cost and sales synergies. Headcount would have to be reduced to reduce overhead costs. Working capital would have to be reduced. Regarding management, Nordic Capital believed that entering into a new phase of the development for the company, with more focus on operational improvement and integration of entities and brand building efforts, it would be necessary to exchange a number of key senior managers.

Using the Alix market study, which was based on dealer interviews and end consumer research, Nordic Capital put together new financial projections. The base case projections are presented in **Exhibit 8**, which was the lower range of revenue projections targeted by management and AlixPartners. Because of the new strategy, management felt the company should be compared to leisure and sports related companies (rather than automotive products) with respect to future valuation multiples. (See **Exhibit 6** for valuations of comparable companies.)

Fall of 2008: negotiating in a financial crisis

The negotiations between owners and creditors took place under the shadow of continued rapid deterioration of international financial markets. By early September, CDS spreads of Wall Street firms were in the thousands and volatility had risen substantially. On September 15, the financial turmoil turned into a full-blown crisis as investment bank Lehman Brothers declared bankruptcy and Merrill Lynch was sold to Bank of America in a forced sale. The US Treasury Department and Federal Reserve injected equity into several banks, as financial markets continued a tail spin. By October 18, The S&P

500 index had fallen by 9% since July. The US crisis rapidly spread to the rest of the world, and even the Nordic banks faced immediate short-term liquidity problems. The European central banks and governments had to urgently provide liquidity support and loan guarantees to save their own banks from bankruptcy. (See **Exhibit 9** for a timeline of important events)

By the end of October the negotiations between Nordic Capital and the lenders reached the final phase. It was clear that the company would not be able to survive for long without additional equity funding, and Nordic Capital believed an infusion of SEK 500 million was needed to execute the turnaround plan.

On the one hand, Nordic Capital felt that the company had a lot of potential under the new business plan. Nordic Capital believed that one of its key strengths in the past had been perseverance and commitment to portfolio companies, and being able to time exits to periods when when markets were favorable. Several successful past investments, such as Wilson, Ahlsell, BE Group, and Nybron Flooring, had endured significant downturns before Nordic Capital had been able to support the companies to turn around and realize great returns.

On the other hand, it was equally clear to Nordic Capital that even under the new plan, Thule was worth less than SEK 8.4 billion, the amount of debt currently owed by the company. Could Nordic Capital get a sufficient return on a new equity investment unless the existing lenders would be willing to forgive a substantial amount of their debt?

The Nordic bank syndicate holding the SEK 6.4 billion of senior debt was extremely reluctant to realize any credit losses, especially given the post-Lehman turmoil in financial markets. Even if Nordic Capital would be willing to infuse more equity to keep operating the firm, it was unclear whether the banks would still not prefer to push Thule into bankruptcy, as long as the value realized in such a bankruptcy was higher than SEK 6.4 billion. Nordic Capital considered possibly offering some equity to the banks in the reorganized firm as part of the deal, in order to incentivize them against choosing the bankruptcy route.

In addition, the mezzanine debt holder had expressed a willingness to take control of Thule in a debt-for-equity exchange. To do so, Goldman Sachs would also need to infuse new funding into the company, however. Following the Lehman bankruptcy, Goldman Sachs (together with other major US banks) faced funding and liquidity strains, which affected their ability to make any new investments. Because of this, it was highly uncertain (also for Goldman Sachs) whether they would be able to pursue a take-over of Thule. Nordic Capital wondered how this would impact a potential solution to solve the financial difficulties facing Thule and how it would impact Nordic Capital's ability to provide funding to Thule.

If an out-of-court restructuring proved infeasible, Thule would have to file for bankruptcy. Apart from a procedure similar to the US Chapter 7 liquidation code, Sweden had a relatively new reorganization procedure. This was not well-tested, and the vast majority of Swedish bankruptcies went through the traditional, liquidation process. Some Swedish liquidations involved selling substantially all a firm's assets jointly, similar to a 363 sale under U.S. Chapter 11 rules, but this had never been done for large companies.[4] Once in bankruptcy court, Thule would risk having to be shut down and liquidated at a fire-sale value. Lenders might then realize significant losses and owners get nothing.

If both Goldman Sachs and Nordic Capital were willing to walk away, leaving Thule to the banks, a bankruptcy could likely be avoided: the banks would simply claim their loan security. The banks lacked the expertise and organization for managing an industrial operation, and were likely reluctant owners of the company. The value of Thule could continue to deteriorate, leading to losses for lenders. Additionally, as owners of, rather than lenders to, Thule, the banks would face increased regulatory capital requirements. Nordic Capital also had to consider repercussion of its action on future business opportunities. If the banks ended up losing money on one private equity transaction, this could make them more reluctant to fund future transactions. There was therefore a feeling that abandoning Thule would have a negative impact on Nordic Capital's reputation and franchise. Meanwhile, the sole objective for the Nordic Capital VI fund was to act in the interest of its investors.

Finally, if Nordic Capital decided to provide additional equity funding to Thule, another important obstacle would have to be overcome. The 2007 investment in Thule made up approximately 20% of the committed capital in Nordic Capital Fund VI. Another investment in Thule would bring the total investment well above the limit for how much money the fund was allowed to put in one single portfolio company. As a result, the LPs in Fund VI would have to agree to waive this restriction for such an investment to be possible. This would not be an easy task, given that the fund in question, Nordic Capital VI, had approximately sixty different institutional investors from all over the world among their limited partners. Nordic Capital would have to negotiate this waiver within the next few days in order for a financial restructuring to be possible.

As Hans Eckerström and Ulf Rosberg prepared themselves to advice the fund in the numerous meetings with investors and banks within the next few days, they were wondering whether it was possible to overcome these last remaining obstacles and save the portfolio investment.

[4] A 363 sale, of part or all of the debtor’s assets, did not require a vote by a firms’ various creditor classes. It was therefore faster and easier to execute than a full plan of reorganization.

Endnotes

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[i] http://www.thule.com/en/SE/About-Thule/About-the-Brand, accessed September 2012, and Capital IQ, accessed September, 2012.

[ii] From EQT's description of Thule and Eldon investments, at www.eqt.se (accessed on November 20, 2012).

[iii] CapitalIQ, accessed July 2012.

[iv] http://www.nordiccapital.com/about-us.aspx, accessed September, 28, 2012.

[v] Nordic Capital, NC Advisory Discussion Paper May 30, 2007.

[vi] *Arvodesräkning Arbetsredogörelse enligt 14 Kap 4 och 6 §§KL , K10862-08*, Malmö Tingsrätt, June 8, 2009.

Exhibit 1 Thule acquisitions, 2004-2007

2004	König	Italy	Snow chains
2004	C&C Trailers	US	Trailers
2005	Star Trailer	Sweden	Trailers
2005	Omnistor	US	RV accessories
2005	Sportworks	US	Bike carriers
2006	Anhaenger.com	Germany	Trailer rentals
2006	Sportrack	US	Racks
2006	Brink and Valley	US	Towbars
2007	Case Logic	US	Bags and storage

Sources: Nordic Capital, NC Advisory Discussion Paper May 30, 2007, and CapitalIQ, accessed September 2012.

Exhibit 2 Selected Thule financials and projections 2007-2011 (as of March 2007), million SEK

	2005	2006	2007	2008	2009	2010	2011
	Actual	Actual	Mgmt Est.	Mgmt Est.	NC proj.	NC proj.	NC proj.
Revenue	5,690.30	6,663.50	6,957.20	7,297.80	7,865.90	8,248.70	8,640.50
EBITDA	802	907.9	1008.0	1,060.40	1,209.40	1,291.00	1,370.60
Depreciation	125.2	121.6	132.7	174.5	196.4	215.9	235.8
Net working capital	n/a	1,154.40	1,171.60	1,239.30	1,230.20	1,302.30	1,337.90
Capex	n/a	130.7	197.9	175.2	169.2	174.2	175.9

Sources: NC Advisory Discussion Paper May 30, 2007

Exhibit 3 Thule business units, 2007, SEK

Unit	Sales, million	EBITDA, million	Distribution channels
Car Accessories EU/Asia	2,276	434	Car dealers, retailers
Car Accessories NA	1,464	91	Car/sports retailers
Towing Systems EU/Asia	1,029	169	OEM[a]
Towing Systems NA	602	26	OEM[a]
Trailers	1,291	144	DIY, petrol stations
Organizational Solutions	1,026	144	Retail, OEM[a], Internet

Source: Nordic Capital, NC Advisory Discussion Paper May 30, 2007.

a) Original Equipment Manufacturers

Exhibit 4a Funds raised by Nordic Capital since inception

Fund Name	Launch Date	Size(EURmm)
Nordic Capital I, L.P.	1990	55
Nordic Capital II, L.P.	1993	110
Nordic Capital III, L.P.	1998	350
Nordic Capital IV, L.P.	2000	760
Nordic Capital V, L.P.	2002	1500
Nordic Capital VI, L.P.	2005	1900

Exhibit 4b Selected limited partners in Nordic Capital VI, L.P.

Company Name	Capital Committed	Type	Country	Funds under management
Washington State Investment Board	€ 250	Public Pension Fund	USA	$42 billion
Massachusetts Pension Reserves Investment Trust	€ 130	Public Pension Fund	USA	$27 billion
Pennsylvania State Employees' Retirement System	€ 85	Public Pension Fund	USA	$34 billion
Absolute Private Equity Ltd.	-	Fund-of-Fund	Switzerland	Approx $1 billion
ATP Private Equity Partners	-	Pension Fund PE Arm	Denmark	€7 billion
Avadis Anlagestiftung, Private Equity Arm	-	Wealth Management Firm	Switzerland	N/A
KGAL GmbH & Co. KG, Private Equity	-	Fund-of-Fund	Germany	€6.7 billion
Princess Management Limited	-	Fund-of-Fund	Switzerland/Guernsey	N/A
Sjätte AP-Fonden	€ 65	Public Pension Fund	Sweden	SEK 20 billion

Source: Capital IQ

Note: Nordic Capital VI, L.P. had approximately 60 different limited partners.

Source: CapitalIQ

Exhibit 5: Capital structure of Thule 2007 buyout (MSEK)

(a) Debt financing

Seniority / type	Lender	Amount	Cash interest	PIK interest
Senior secured bank loans: tevolver (drawn amount) and term loans A, B, C, and 2nd Lien	Syndicate of 8 Nordic banks, led by Nordea	6,400	STIBOR + 250 b.p. *	-
Mezzanine Loan	Goldman Sachs Mezzanine Partners	2,050	8.50%	3.25%
Total debt		**8,450**		

(b) Sponsor financing

Investor	Shareholder loan**	Common Equity	Total investment
Nordic Capital	2,827	707	3,534
Goldman Sachs Mezzanine Partners	186	47	233
Management	169	277	446
Total	**3,183**	**1,030**	**4,213**

* Interest is calculated as 3-month STIBOR (3.96% in August 2007) plus the spread.

** 10% PIK interest per annum accrue on the shareholder loans

Source: Nordic Capital, NC Advisory Discussion Paper May 30, 2007 and Thule Case Study, November 2011, Nordic Capital.

Exhibit 6 Selected comparables, December 2006 and October 2008

			December 2006						October 2008						
Peer group	**Firm Name**	**Country**	**M. cap.**	**Net Debt**	**Sales**	**EBITDA**	**EV/ Sales**	**EV/ EBITDA**	**M. cap.**	**Net Debt**	**Sales**	**EBITDA**	**EV/ Sales**	**EV/ EBITDA**	**Beta**
Auto	Autoliv	SWE	33.0	6.8	41.7	5.6	0.96	7.1	9.0	8.7	47.6	6.0	0.37	2.9	0.85
	Haldex	SWE	3.6	0.9	7.9	0.7	0.58	7.0	0.6	2.0	6.5	0.5	0.40	5.0	0.92
	Kongsberg	NOR	3.0	0.9	3.4	0.4	1.15	8.9	0.1	3.8	7.2	0.5	0.55	7.2	
	ARB	AUS	1.7	0.0	1.0	0.2	1.80	10.2	1.3	0.1	1.2	0.2	1.12	6.2	0.29
Auto-related	Drew Industries	USA	3.8	0.3	4.9	0.5	0.84	8.6	2.0	0.1	3.8	0.4	0.54	4.8	0.5
	Hymer	DEU	2.5	1.3	6.6	0.6	0.57	6.7	1.0	2.1	7.4	0.3	0.42	11.1	0.63
	Thor Industries	USA	16.5	-1.4	20.4	1.6	0.74	9.2	5.8	-1.2	15.6	0.8	0.30	6.1	1.12
	Trigano	FRA	3.6	1.7	7.7	0.6	0.68	8.1	0.8	2.2	6.8	0.3	0.44	11.8	2.00
	Adidas	DEU	66.4	19.2	87.0	9.5	0.98	9.0	41.9	22.4	91.9	10.6	0.70	6.1	0.64
Branded consumer goods	Amer Sports	FIN	10.3	5.1	15.5	1.1	0.99	13.8	3.5	5.2	13.6	1.0	0.64	8.3	0.53
	Husqvarna	SWE	31.2	4.3	29.4	3.9	1.21	9.2	17.6	11.6	32.4	4.2	0.90	6.9	
	Rapala	FIN	2.1	0.9	2.0	0.2	1.49	12.6	1.2	0.8	2.1	0.3	0.91	7.7	-0.12
					Median		0.97	8.9			Median		0.55	6.6	
					Mean	Overall	1.00	9.2			Mean		0.61	7.0	
						Auto	0.96	7.1					0.40	5.0	
						Auto r.	0.74	8.6					0.44	6.2	
						Brand.	1.10	10.9					0.80	7.3	

Sources: CapitalIQ, accessed November 2012.

Exhibit 7: Thule's Board of Directors, October 2008

Name	Title	Background
Anders Pettersson	President and CEO, Member of the Board, 2002-	President and CEO of Thule Holding AB since 2002. Previously worked at Gunnebo AB, Trelleborg AB, Nobel Industries, Akzo Nobel, and Rescon AB. He is also a Director of Thule Holding AB since 2004. He has a M.Sc. in Civil Engineering and a B.Sc. in Business Administration.
Fredrik Arp	Chairman of the Board, 2004-,	Former Group Chief Executive of Volvo AB and President and Chief Executive Officer of Volvo Car Corporation Ltd., of Ford Motor Co.. Served as CEO of Trelleborg Industries Inc. and PLM AB, now part of Rexam plc. Member of several boards of directors of Swedish industrial firms. Mr. Arp holds a Bachelor of Science in Business and Economics and a Doctorate in Economics h.c, both from the University of Lund.
Åke Skeppner	Member of The Board, 2002-	CEO of Thule Group from 1990 to 2002.
Hans Eckerström	Member of The Board, 2007-	Partner at Nordic Capital. He joined the firm in April 2001. From 1997 to 2001, Mr. Eckerström served as a Partner and Manager at Arthur D. Little. M.Sc. in Mechanical Engineering from the Chalmers University of Technology and an M.Sc. in Business Administration from the School of Economics and Commercial Law, University of Gothenburg.
Ulf Rosberg	Member of The Board, 2007-	Partner at Nordic Capital, which he joined in 1994. Previously, Mr. Rosberg has held positions in corporate finance at Enskilda Fondkommission and was a Partner at Leimdörfer Bernhardtson Westerberg & Partners. M.Sc. in Economics from the Stockholm School of Economics and studied finance at New York University, Stern School of Business.

Source: CapitalIQ, accessed November 2012.

Exhibit 8 Revised projections November 2008

Source	2006A	Original estimates (Exhibit 5) 2007E	2008E mgmt	New estimates (November 2008) 2007A	2008PF revised	2009E revised	2010E revised	2011E revised	2012E revised	2013E revised	2014E revised	2015E revised
Revenue	6,664	6,957	7,298	7,203	6,859	6,173	5,865	6,106	6,717	7,389	7,832	8,302
EBITDA	908	967	1,060	791	618	432	411	616	788	961	1,057	1,162
Depreciation	122	133	175	144	136	133	129	127	140	153	161	171
NWC	1,154	1,172	1,239	1,601	1,750	1,587	1,408	1,343	1,478	1,626	1,723	1,826
Incr. (Decr.) in NWC		17	68	447	149	-163	-179	-65	135	148	97	103
Capex	131	198	175		147	120	123	111	119	132	141	149

A=actual

PF=pro forma

E=expected according to base-case projections

Source: Nordic Capital discussion paper, November 8, 2008.

Exhibit 9 Financial crisis and Thule: timeline

	Apr-07	May-07	Jul-07	Aug-07	Sep-07	Dec-07	Feb-08
Thule events		Signing of Nordic Capital's acquisition of Thule from Candover.	Closing of the deal			Thule board meeting. Agrees to reduce overhead and prepare company for economic downturn.	
Other economic events	New Century Financial Corporation, a leading subprime mortgage lender, files for Chapter 11		Countrywide Financial warns of "difficult conditions." Bear Stearns liquidates two hedge funds that invested in mortgage-backed securities.	"Quant crisis": a host of quant-driven hedge funds experienced losses on the back of the subprime crisis and a series of margin calls	Bank of England provides liquidity support for Northern Rock, the UK's fifth-largest mortgage lender.	Financial market pressures intensify, reflected in diminished liquidity in interbank funding markets.	Northern Rock taken over by the British government
	Mar-08	**Apr-08**	**May-08**	**Jun-08**	**Aug-08**	**Sep-08**	**Oct-08**
Thule events	Board and Nordic Capital realize that serious measures needed to avoid financial distress. Letters of intent for two acquisitions signed.	Acquisitions abandoned.	Turnaround consultant Alix Partners hired to perform extensive operational review of Thule.	Thule defaults on its Debt-to-EBITDA covenant. Blackstone Debt Advisory hired to assist in lender negotiations.	Stand-still agreement signed with Thule's lenders.	"All-lender meeting." PWC performs an independent Bank Review of Thule.	Thule stand-still agreement to expire. Nordic Capital negotiations regarding waiver of Fund VI LP agreement.
Other economic events	After a loan guarantee from the government, Bear Stearns is acquired by J.P. Morgan for $2 dollars per share					Fannie and Freddie receive guarantees. Lehman files for Chapter 11. AIG bailed out by Federal Reserve.	Many European banks get public support. Sweden offers loan guarantee to banks.

Exhibit 10: Selected financial data

Interest rate	August 2007	October 2008
3-month STIBOR	3.84%	5.27%
3-month Swedish Government Bill	3.58%	3.63%
5-year Swedish Government Bond	4.24%	3.23%
10-year Swedish Government Bond	4.25%	3.57%
10-year US Treasury Bond	4.68%	3.78%
10-year Euro Government Bond	4.30%	3.90%
SEK/USD exchange rate (SEK per $)	6.739	7.686
SEK/EUR exchange rate (SEK per €)	9.225	10.020
AAA corporate bond yield (US)	5.79%	6.28%
BBB corporate bond yield (US)	6.65%	8.88%
Non-investment grade bond yield (US)	8.54%	23.80%

Sources: Sveriges Riksbank, Merrill Lynch.