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We'll pay up for great companies: Swedish giant EQT

Swedish private equity giant EQT will open its Australian office as part of a push into the Asia Pacific region.



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Swedish private equity giant EQT has officially arrived in Australia with a simple message: We're prepared to pay up for great companies.

The \$67 billion firm, which went public last year, will officially open its Australian office in Sydney on Tuesday, with former [Affinity Equity Partners executive director Ken Wong](#) to head up the local arm.

EQT veteran Thomas von Koch, who was part of the team that set up the firm 25 years ago, says EQT's focus on future-proofing the companies it invests in, rather than using financial engineering to drive returns, will help it stand out in Australia's competitive private equity sector.





Thomas von Koch; "It's easier to make a good company better than make a bad company good." **Supplied**

"We are here to build companies. Other investors are in the business of fixing the plumbing, flushing expense and creating value through debt ... and cash flow. We are here to change companies and build companies," says von Koch.

"It's easier to make a good company better than make a bad company good. And that mindset means that we will actually pay up for good companies."

EQT's [most prominent Australian investment to date was radiology group I-MED](#), which it bought in 2014 for \$500 million and sold in late 2018 for \$1.3 billion.

The firm held [unsuccessful takeover discussions with telco group Vocus last year](#) but in late December pounced on New Zealand listed aged care group Metlifecare for \$1.4 billion.

Wong says this shows the Vocus experience - where EQT's bid was flushed out much earlier than both it and Vocus would have liked - has not dented the firm's willingness to take aim at publicly listed companies.

Healthcare, technology and telecommunications and engineering are among the key sectors for the Stockholm-based firm, which is ultimately backed by [the Wallenberg family, a legendary family of industrialists](#) that controls 40 per cent of the value of the Stockholm stock exchange via stakes in giants such as Ericsson, ABB and Electrolux.

Von Koch, who ran EQT for five years and is now spearheading a push into Asia Pacific that he admits has taken too long to eventuate, explains EQT was founded on a principle of bringing "industrial expertise" to its investments.

Wong, who moved to Singapore to learn EQT's philosophy and approach upon joining in October 2018, says there is an appreciable difference in the firm's long-term approach that resonates with the companies it invests in.

The "future proofing" strategy means EQT acts as if it will hold a business in perpetuity, and so will typically invest more than other PE firms in areas that have a long-term pay-off, such as developing new products and markets.



The average hold period across EQT's global PE portfolio is about seven years, although von Koch says this is starting to rise, particularly for companies that it loves. When a sale does occur, there should be plenty of growth left in the business for the new owner.

"The company, when we come to sell it seven, eight years down the road, should have the pipeline full with new products, and R&D department should be equipped with the right people, and it should be growing faster than ever," he says.

EQT, which has grown to cover venture capital, infrastructure, real estate and credit, is also heavily focused on ESG (environmental, social and governance) issues and helping the companies it invests in turn their digital presence into a competitive advantage.

But von Koch is quick to say this is not about EQT being more responsible corporate citizens than its competitors. "We're not. That's just a prudent way to create the future of a company."

The push on digitisation has seen EQT raid the likes of Google and Amazon for talent – the former chief technology officer of Spotify was part of the due diligence team on the Metlifecare acquisition – and invest in a proprietary system called Motherbrain, which uses artificial intelligence to collate and draw trends from pools of data.

The system can be used to analyse the digital strength of a company's EQT that it is considering investing in – such as what their social media presence really looks like, how they rank in Google, where their app downloads sit – or spot potential opportunities.

Von Koch says while performing due diligence on a potential investment, Motherbrain data showed a small competitor "growing like a weed". EQT investigated further and found the small competitor was run by a former executive of the first business, who had developed new technology that was rapidly gaining traction.



fund.”

Von Koch says the “nasty” side of the rapid growth of the global equity business is the run-up in prices for business. “Every business we acquire we will leave the meeting with a bleeding nose,” he says.

But his experience during the GFC taught him that it is worth paying a premium for a high quality business and then “grow into the multiple” because at least your initial investment is protected.

“If you acquire a good company, a market leader ... then that company will weather the storm and be much stronger than if you’d bought the number three or number four in the market.”

Von Koch says he hopes EQT’s Australian office will grow to about 25 over the next five years, and all arms of the firm – infrastructure, venture capital, real estate and credit – will eventually be represented.

He and Wong emphasise there will be no pressure to chase deals.

“When we enter a country we don't leave, we continue just to build and build and build. High water, low water, we just continue to build – that’s our DNA.”



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James Thomson is a Chanticleer columnist based in Melbourne. He was the Companies editor and editor of BRW Magazine. *Connect with James on [Twitter](#). Email James at j.thomson@ afr.com*