

Small-Caps and Nordic Technology Leaders Powered Returns for Accendo

Stockholm (HedgeNordic) – At the Nordic Hedge Award, one of the categories distinguished is the “HedgeNordic Performance Award”. This award is based on raw, absolute performance, with no adjustments made for volatility or any other risk considerations. In a bull market, it is likely that a long-biased equity manager will win the award. Activist Accendo Capital SICAV/SIF was the winner over 36 months, with net returns of 140% (for the A class) between 2015 and 2017, making it the best performer over three years out of 154 funds in the NHX Index.

Accendo has been long-only for its ten years since inception (but can short) and its correlation to the MSCI Europe Small Cap Index of 0.54, is lower than that of many long/short equity funds (and most long/short equity indices). This is partly due to Accendo usually holding cash of 10-20%, but also because Accendo’s holdings are unique stories that are not driven by general equity market performance. The reality is that shareholder activism (along with distressed debt) is, in the majority of cases, a long only strategy.

Accendo was founded by former private equity investor, venture capitalist and entrepreneur, Finnish citizen Henri Österlund (*pictured*) who as CIO, works collaboratively with other entrepreneurs (and company managers) who run smallcap companies, usually with market caps between EUR 50 and 200 million. The investment universe is over 300 companies in Scandinavia and German-speaking Europe (including multi-lingual Switzerland), which generally have an edge in technology. Accendo runs a concentrated book: typically owning six positions, with four of them currently disclosed publicly. Therefore, it makes sense to outline some case studies of the individual investments that helped to generate the profits. It is also worth noting that the returns have come despite two investments that have not (yet) performed, which we also touch on.

The largest P&L contributor, at EUR 18.2 million (and realised), has been Finland’s Okmetic, which occupies a niche in the special sensor wafers market and generated a 24% IRR over its 8.5 year holding period. “The value realisation came in the last three years, with EUR 30 million of capex showing up in the late 2014 and early 2015 numbers” recalls Accendo’s Mark Shay (a CFA charterholder who has dual US and Swedish nationality, and won a Wallenberg scholarship for an MBA at MIT). After strong share price appreciation, the icing on the cake was a bid. The premium was approximately 30% over the previous day’s share price. Okmetic was one of three Accendo investments that have been taken over, and was the first ever Finnish company to be bought by a Chinese consortium.

Accendo and Okmetic had a symbiotic relationship. Accendo was the largest shareholder of Okmetic, and Okmetic was Accendo’s largest holding. Osterlund was Chairman of Okmetic from 2009. “We populated the board with good people and changed the CEO to a technology leader with a strong track record. We also encouraged investment in a factory in Vantaa in Finland, taking a five-year view” says Shay. “Henri was a very active Chairman, spending a significant amount of time on Okmetic, meeting big clients, and travelling to Asia, where he helped to raise awareness of the company” says fellow Finn Kai Tavakka, who is a CFA charterholder.

During the bid, “Osterlund was primary negotiator with the principal from the buying consortium” he adds. The process was complicated by the decision to sell US operations to avoid the need for a CFIUS review (something that recently scuppered Broadcomm’s bid for Qualcomm).

Hexatronic

Hexatronic is the second largest contributor to Accendo profits, at EUR 14.5 million. In contrast to Okmetic, the share price appreciation on Sweden's Hexatronic – which doubled in 2017 – is thus far unrealised. Osterlund is on the nominating committee and Shay was on the board until 2018 AGM when he was replaced by Mr. Jaakko Kivinen, a senior advisor to Accendo. “The investment thesis is based on broadband communication networks – including 5G rollouts – driving demand for fibre. Hexatronic's home market of Sweden is maturing, but the firm has carved out a niche as a challenger selling to second and third tier operators outside Sweden, in the Middle East, US, UK and New Zealand. Hexatronic is also able to customise products to customer needs. Hexatronic manufactures fibre cables (which are cheap to ship) in Sweden, with plastic ducts (which are costlier to ship) made closer to end markets in New Zealand and Kentucky” says Shay. Hexatronic shares have back-pedalled somewhat in 2018, partly as Sweden's extended winter weather has slowed down installation activity. As always, Accendo are taking a long-term, five-year view, and expect that Hexatronic could at some stage be an attractive takeover target for larger companies.

During 2015-2017, exits from medical technology company Xvivo Perfusion (which was in 2013 spun out of previous Accendo holding Vitrolife); media group Alma Media, and Gurit were also profitable.

Doro

Not all of Accendo's long-term holdings have yet generated profits, however. Talentum was exited at zero IRR (via a sale to Alma Media). Telecom solutions group, Doro, has produced total returns close to zero since Accendo invested in it. Uncertainty over a leadership and board transition, and weakness in the global mobile phone market have weighed on the shares. Doro operates in a niche of the market, providing telecare for elderly people. The company has lost some ground in the US but has a strong position in selected markets, such as the Nordics, Germany, France and the UK. Accendo sees huge growth potential and remains very much committed to the future of the company. Osterlund is vice chairman, and Accendo bought more stock in 2017. “We view the firm, which has low leverage and strong cash flows, as attractively valued. We have advocated a programme of buying back shares, which can now be used e.g. as an acquisition currency. New products announced at the World Mobile Congress bode well” says Tavakka.

Impact Coatings and Remedy Entertainment

The other two disclosed holdings are recent investments initiated in 2017. Shay is nominated on the board of surface treatment technology group, Impact Coatings: a nano-cap stock that makes nano-coatings for high-performance surfaces, including fuel cells, automotive reflectors and consumer products. The end use in fuel cell electric vehicles means that Impact Coatings can be seen as an “ESG” and “Impact Investing” stock that may appeal to investors whose process incorporates ESG.

Osterlund is on the board of Finnish high-end video games developer, Remedy Entertainment. Accendo advised on, and participated in, the May 2017 IPO.

Neither of these has yet made a significant contribution to Accendo fund profits, but that is hardly surprising given the manager's typical time horizon. “We have a five-year time horizon and are not seeking opportunistic investors who take a 12-18 month view,” says Shay.