

Doubling Money on EQT Bid

Stockholm (HedgeNordic) – Some investors do not like the thought of their investments being taken away through takeovers. Other investors, on the other hand, become irritated when takeovers are rejected, seeing failed takeovers as missed opportunities to lock in gains. Long/short equity fund **Origo Quest 1** is now considering whether to accept or reject a bid for its largest holding, Swedish pharmaceuticals company Recipharm.

On Monday this week, private equity firm EQT announced a public offer of SEK 220 in cash per share to the shareholders of Recipharm, which represents a premium of 21.5 percent compared to the highest closing share price recorded since the company's listing in 2014 of SEK 181. Stockholm-based EQT is also offering to give the holders of Recipharm's senior unsecured convertible bonds about SEK 1.43 million in cash per SEK 1.0 million in aggregate principal amount of convertible bonds. The total value of the offer equals SEK 17.9 billion or approximately \$2.1 billion.

EQT has already secured ownership of approximately 25.7 percent of Recipharm's shares and 74.3 percent of the votes through Lars Backsell, the chairman of the board of Recipharm, and Thomas Elderer, the CEO and a member of the board of Recipharm. Lars Backsell and Thomas Elderer are indirect shareholders of Recipharm through companies directly or indirectly owned by them and are participating with EQT in the offer. EQT's offer is conditional upon getting acceptance from shareholders representing more than 90 percent of the total number of outstanding shares in Recipharm on a fully diluted basis.

According to Stefan Roos (*pictured*), the CIO of Origo Quest 1, "the management team will now analyze the bid." Origo Quest 1, managed by Stefan Roos and portfolio manager Carl Rydin out of Stockholm, first built a position in Recipharm about one and a half years ago. Recipharm represents the largest holding in Origo Quest 1's portfolio as of the end of November, accounting for 9.6 percent of the portfolio. In June of 2018, the team at Origo Fonder wrote in a letter to investors that "Recipharm is a new-old holding in the fund."

Origo Quest 1 decided to divest their holding in Recipharm in 2015 in anticipation of a challenging period with a great need for investments in the business and squeezed margins. "Now the camp is completely different and we have therefore chosen to invest again in the company. The valuation is now considerably lower," the investment team wrote in the letter to investors for June of 2018. "In addition to low maintenance investments and higher operational efficiency in the future, we see continued acquisitions as the most important value driver," the letter added. "If the company grows in line with its historical growth in the next few years and at the same time restores the operating margin to 12-13%, the share should be valued at around SEK 180-200."

Over the past 25 years, Recipharm has grown organically and via several strategic acquisitions, developing into one of the leading global Contract Development and Manufacturing Organizations (CDMOs). Recipharm's shares have gained 66.5 percent since the beginning of the year through yesterday's close. According to Roos, "the bid price means approximately a doubling of invested capital for the investment that took place one and a half years ago."