

# The Swedish Experience

---

The first European government  
to actively manage its assets.



# 1990's Economic Crisis

---

## **Outsized public sector helped sink the 'Swedish Model'**

- Negative growth 1991-93
- Open unemployment reached 8-10 %
- Banking crisis erupted in 1992
- Poor industrial competitiveness
- Vital sectors in need of restructuring
- Inefficiently regulated markets

**A fundamental break with the post-war economic model**

# Challenges with public ownership

---

## Finance and Accounting

- Commercial/ fiscal risk
- Cash budget vs investments
- Responsibility/ accountability
- Efficient capital allocation
- Capital structure/ dividend policy

## Political Economy

- Ownership vs regulatory role
- Ownership fragmentation
- Capacity building
- Political vs fiscal interests
- Vested interests

**Mismanagement and capital destruction**

# State capitalism in crisis

---

## New business model required

- End of Cold War
- Globalization
- Digital revolution
- EU market liberalisation
- Privatisations
- Capital market development

## The elephant in the room

- Sweden's largest business owner
  - 60 companies
  - 1/4 of the business sector
  - Largest employer
  - Some of biggest corporates
- Dominant property owner
  - More than half the real estate market

**Globally - privatisation was seen as the only remedy**



# Response: private sector discipline

---

As if 'listed holding company'



...and 'privately owned'

- Value maximization as objective
- Outsourcing public service obligations
- Commercial capital structure
- Competitive dividend policy
- New professional NEDs (85%)
- New CEOs (75%), CFOs (50%)

# HoldCo – bridge to the private sector

---

## Private sector discipline

### Clear objective:

- Maximize value

### Political insulation:

- From short-term political influence

### Accounting:

- As-if listed company

## Meeting on equal terms



Level playing field



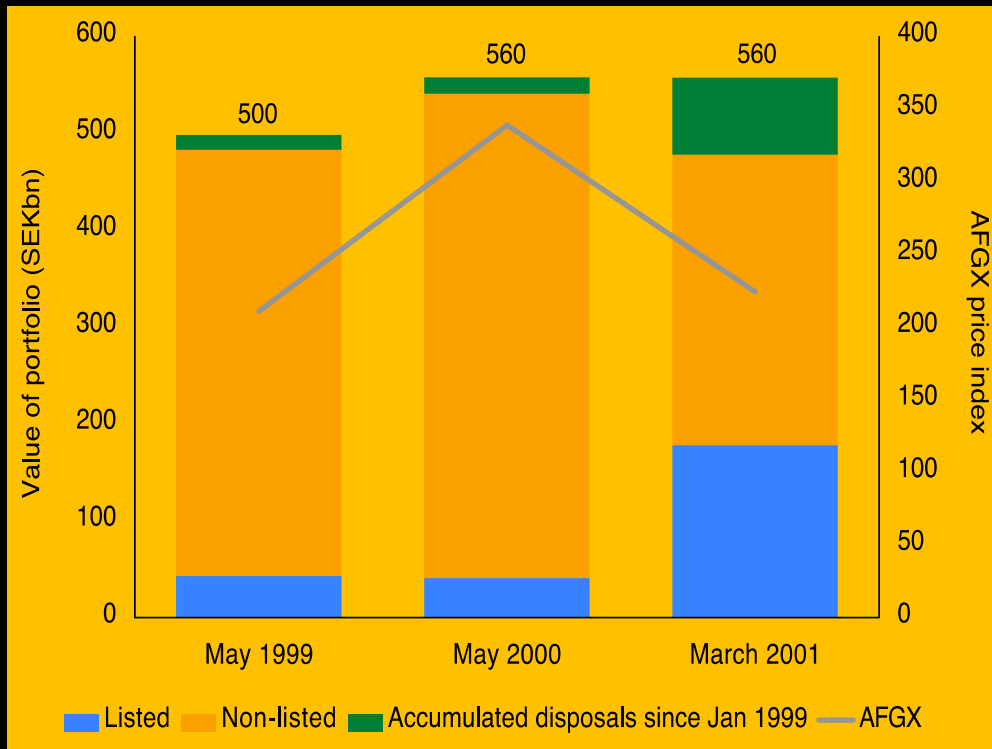
Foundation to attract talent and build capacity



Shared language and ability to hold board accountable

**Avoiding an undue transfer of public wealth to the private sector**

# Equity culture paid off

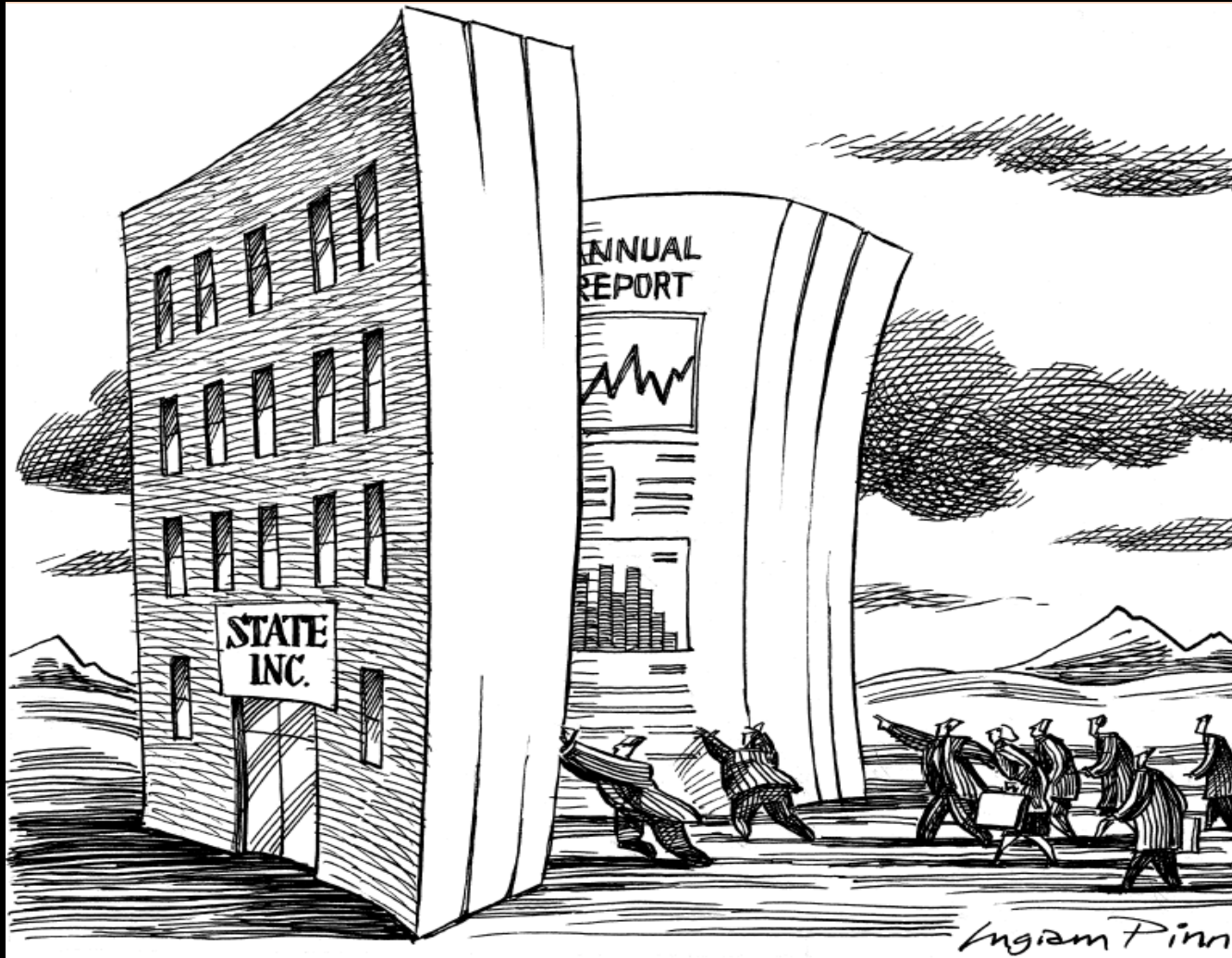


## Outperformed local stock market

- Restructured 60 companies
- Increased productivity
- Boosted economic growth
- Improved returns and dividends
- Created fiscal space

**Value growth 2 x the local stock market**

# Corporate turn-arounds



**Completed in 3 years**

- New Board/management
- Focused on core business
- Divested 1/3 of assets
- Operational improvements
- Optimised capital structure
- One-off dividends

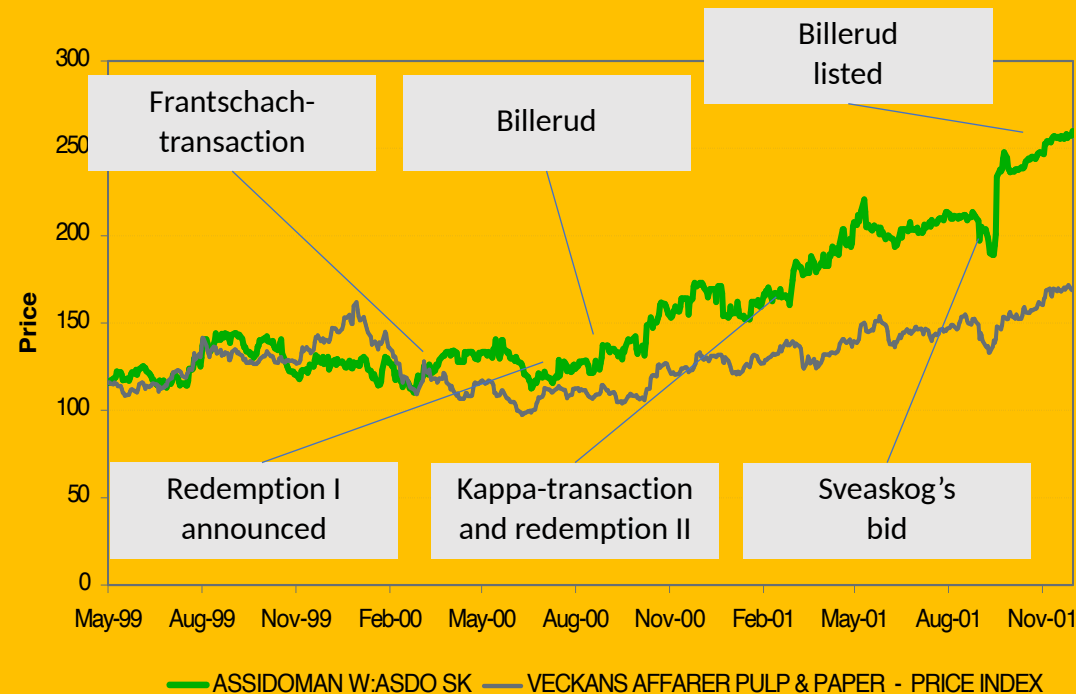
**Tangible improvements for society**  
estate



# Assi - bleeding forestry giant



## Lossmaking conglomerate



## Turn-around in three years

- One of the largest in Europe
- Controlling 14% of Swedish forest
- Loss making for years
- Divested/demerged all paper divisions
- Ultimate IRR, almost 16%

**Best performing stock of the year**

# Rapid postal transformation

---



## Outdated service offering

- Sweden early to deregulate
- Mail core business under threat
- Costly retail network
- Outdated payment system
- Urgent call for capital injection

## Focused on core business

- Focus on mail and parcels
- Divested all non-core businesses and real estate
- Capitalised pension fund ahead of early retirements
- Outsourced retail network
- No capital injection required

**Unprecedented turn-around**

# Telia merger and IPO

---



## Mobile pioneer lost in space

- Unwieldy structure and costs
- Fast changing technology
- Rapidly increasing competition
- Mobile telephony growing
- Economies of scale required
- Broadband in its infancy

## Ready for lift-off

- Failed merger with Telenor
- Non-core assets sold bulk to PE
- IPO at the height of tech bubble
- Outperformed telecom-index
- Merged with Sonera, in first ever telecom cross-border transaction

**Financial success – but not political**

# Three-way airline merger

---



## Stuck in post-war structure

- One brand - three government owners/ HoldCo's
- Triple complexity and costs
- Far behind low-cost carriers
- Three illiquid listings
- Higher cost-of capital

## One-share merger, a first step

- Single listing on STO
- Head Office in Stockholm
- Hub in Copenhagen
- Positive impact on share price
- Facilitated capital raising

**Political success – but still commercial laggard**

# Electric cash generator



## Incoherent local giant

- Dominant incumbent
- Excessive equity
- Incoherent international expansion
- Unprepared for increased competition in Sweden

## EU expansion at a cost

- Divested non-EU assets
- Focus on Baltic region
- One of the larger providers in the EU through acquisitions
- Commercial dividend policy stuttering

**Desperate need of financial discipline**



# Breaking up the railway

---



## Opening Pandoras Box

- Incorporation of state agency
- Independent corporations
  - Passenger → 'SJ'
  - Cargo → 'Green Cargo'
  - Non-core → 'Swedcarrier'
  - Real estate → 'Jernhusen'

## Profitable - at last

- Divested non-core assets
- Support services under neutral third-party ownership
- Prepared for competition
- EBIT more than doubled between 1998–2001

**Laid bare decades of investment backlog**

# Investing without taxes Jernhusen

---

## Former railway properties

- Independent real estate company
- Demerged from the railway
- \$2 bn real estate portfolio
- Development potential above and around major stations

## Funding major infrastructure

- Doubled national rail capacity
- Innovation hub in Stockholm
- Created hundreds of jobs
- Thousands of housing units and office spaces
- ROE averaging 12%

**Government owns half of the real estate sector**

# Swedish defence champion

---



## Post-Soviet era

- End of cold war led to substantial defence cuts
- Corporate consolidations across Europe
- SAAB required divestitures prior to merger

## Restructuring a conglomerate

- Bofors sold to United Defence (US)
- Kockum sold to HDW (Germany)
- SAAB acquired core in public bid
- Positive shareholder return

**Political mistake to sell submarines later corrected**

# Prime real estate

# Vasakronan

---

## USD 15 bn portfolio

- Former State Property Agency
- Redevelopment projects
- 178 properties
- Total area 2.4mio sqm
- ROE 19%, (last 5 years)

## Growth and improved yield

- Doubled floor space in Stockholm
- Built 7 thousand new homes
- Innovation hub in Uppsala
- Pioneering incentive system

**Performance among the best in the private sector**

# FINANCIAL TIMES

FRIDAY NOVEMBER 12 1999

## INSIDE TRACK

MANAGEMENT PUBLIC SECTOR:

# Welcome to the ways the market

Sweden is learning private sector ways, but resisting what  
**Christopher Brown-Humes**

On a bright November morning in central Stockholm, 100 analysts and journalists trooped through the city's streets to attend the capital markets day of Vasakronan, a Swedish real estate company.

There would be nothing unusual in this if Vasakronan were a quoted company sharing its ideas and strategy with its investors.

are eventually privatised. Sweden has fully or partially privatised some state-owned companies, such as Nordbanken, the banking group, and AssiDomän, the forestry group, and is likely to continue the process, but its approach is pragmatic and it has ruled out privatising companies with natural monopolies.

According to a senior official in the UK Treasury,

countries such as and Italy are also manage their more professional issue is reversion from the for Economic and Development What Sweden v diversity the cohes trying compa

Desk Note  
21 June 2001

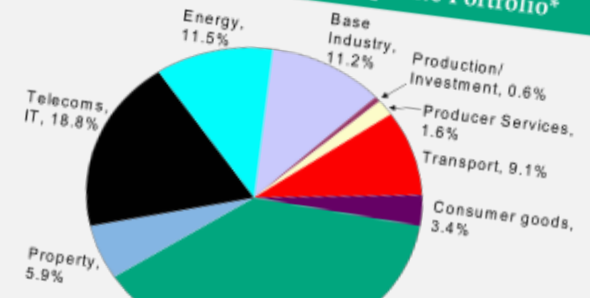
Juli Collins-Thompson



## Sweden: Blazing the Reform Trail

- Current reforms taking place in the Swedish public sector can be considered "revolutionary" in the context of economic reforms taking place across Europe.
- After having tackled its fiscal imbalances, the Government is now in the process of restructuring the public corporate sector. This is crucial, given that it is the largest industrial owner in Sweden.
- These public sector reforms...

Chart 1: Government Corporate Portfolio\*



Nordic regional focus

www.privatisationonline.com Privatisation International December 2000

# Sweden: bold, novel approach

The first attempt by a European government to address systematically the ownership and management of government enterprises has rapidly yielded significant returns and benefits. By **James Sasso** and **Martin Pellbäck**, UBS Warburg.

Graph 1: estimated value of portfolio (Ebn)

