

Slow activism

A Swedish activist explains to *Activist Insight Monthly* how it takes its time with campaigns and wouldn't want small investors dominating the debate.

Accendo Capital, based in Luxembourg and Stockholm, prefers activism at a less breakneck pace. This activist hedge fund, which began investing in Finland and Sweden in 2008, compared the strategy in its home market to the U.S. during a recent visit to New York with some surprising observations.

Commensurate influence

"The corporate governance models in the Nordic countries are very competitive versus the U.S. – in many aspects, even better," says Henri Österlund, Accendo's founder.

Given the prevalence of two-tier boards, also common in many German-speaking countries in Europe, that may be an unexpected viewpoint for an activist. Management boards can be insulated from shareholders as a result of the two-tier structure, which allows a few large investors to dominate oversight of executives. Activists such as those that challenge U.S. companies with minimal stakes do not get the same hearing.

"In Sweden and Finland, what authority and credibility a shareholder has is clearly connected to their ownership stake. It should be this way here [in the U.S.]," says Mark Shay, Accendo's senior partner. Annual elections and independent board chairs help keep shareholders in control of the company.

"That's why the idea that someone with a 0.5% stake would launch an

activist campaign in a Nordic small cap is unfathomable," Shay says. "It's a perfectly fine system to work within and it doesn't lend itself to public campaigns and proxy battles."

Buy in to buyout

Accendo freely admits that it exists in an uncommon niche and that scale would be difficult to achieve for investors wanting to gather assets. It takes a private equity approach, derived from Österlund's background. Shay's experience as a consultant and equity analyst, and a third team member, Kai Tavakka's roles in investment banking, round out the team.

"Part of our concept in terms of how we act as activists is rooted in the background of private equity," Österlund says. "I think that the best thing that private equity gives to companies is that you have a clear owner that is dedicated to bring[ing] the company from A to B. A lot of listed companies have a very scattered shareholder base – no one takes care of the company, no one loves the company."

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Accendo at a glance

Offices:	Luxembourg, Stockholm
Founded:	2007
AUM (Oct 2017):	82M euros
Level of activism focus:	Primary
Companies publicly targeted*:	4

*Since 2010

Meet the team



Henri Österlund
Founding Partner



Kai Tavakka
Partner



Mark Shay
Senior Partner

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That often means lengthy engagements, a process helped by lockups on its investors. Accendo exited its first ever investment, in **Okmetec**, after eight years. It also means a focus on growth. At Okmetec, an early dilemma was whether to support a capital expenditure program. It eventually did and says it encouraged management to pursue bigger clients. Okmetec was sold in 2016 to China’s National Silicon Industry Group.

“Capital allocation decisions should be at the core of all board work... not just if you do capex or you don’t do capex, but more the understanding of what is the upside of the capital resource allocation decisions,” Östlund explains. “Where many companies fail is they look too much at the risks... They focus too much on the downside and don’t then make decisions that maximize the upside.”

Fresh impact

More recently, Accendo has built a position in Impact Coatings, a company Shay says “has never really performed well financially.”

“They are nearing an inflection point where with the right kind of guidance – owner guidance – and the right financing and the right strategy

they can get to profitability and a breakthrough” in their footprint, he adds. What is typical for Accendo, “is that it’s a niche producer with some protected technology and the addressable market for them compared to the size of the company today is enormous.”

As the company begins to address its cash flow, Accendo reckons Impact Coatings will see a higher quality of shareholder replace the retail component of its ownership, and predicts fellow materials firms will look to partner with or acquire it.

Winner takes it all

The largest holding in Accendo’s portfolio, **Hexatronic**, is also a business that needs to look for a broader array of clients. According to Shay, its business, governance, and culture are all deeply focused on Sweden, but the more revenue and profit it can book outside the country, the better its future could be.

Accendo currently has four investments – three that come with board seats – and believes that it could roughly double that number with a fresh inflow of capital. For now, it is the portfolio companies taking on the world, not Accendo. 🇩🇪



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