KINNEVIK

Q3 Report

Thursday, 24th October 2019

Performance

Georgi Ganev

CEO, Kinnevik

Good morning everyone and welcome to the presentation of Kinnevik's results for the third quarter, 2019. I am Georgi Ganev, Kinnevik CEO, and with me today is our CFO, Joakim Andersson, and our Director of Corporate Communications, Torun Litzén. We will start by taking you through a presentation of the results released this morning, and after that, we're happy to answer any questions you may have.

Solid NAV Development Driven by Continued Strong Trading in Zalando and Tele2, as well as by the Ground Breaking Fundraise in Babylon

Now please turn to page 3, where we have provided you with a summary of the key highlights for the quarter. As previously announced, we have taken three clear steps to pivot our portfolio towards growth: the sell-down in Zalando, the distributions of Millicom, and a revised shareholder remuneration policy. I will go into more depth on each of these later on.

During the quarter, we invested a total of SEK 1.8 billion into building our healthcare portfolio. Firstly, we invested further capital into Livongo and Babylon, two companies we believe are only at the beginning of their respective growth journeys. Secondly, we made a new investment in VillageMD, a leading US-based provider of primary care. And I will return with some more details on these investments later on, but I believe they clearly show our conviction towards the opportunities of the healthcare sector, and how technology and new innovative business models can make a true difference in disrupting the industry.

In terms of financial development, we increased our net asset value by 3% to SEK 92 billion during the quarter. This was mainly driven by strong share price development in Zalando and Tele2, and partially offset by weaker share price development in Global Fashion Group and Millicom.

As a result of the sale of Zalando shares which generated SEK 5.9 billion in gross proceeds, and an extraordinary dividend of Tele2 of SEK 1.1 billion, we decreased our net debt by SEK 4.9 billion and ended the quarter in a net debt position of SEK 0.8 billion. That corresponds to a leverage of 0.9% of the portfolio value.

Now, before we go deeper into the performance of our operating companies, please turn to page 5, for an overview of the three important announcements I mentioned earlier.

We Have Taken Two, and Announced a Third Step towards Our Objective to Pivot Our Portfolio towards Growth Capital

During the quarter, we announced a sell-down in Zalando. We have been proud owners in Zalando since 2010 and due to its success, it has grown to become our largest asset. Zalando remains our largest asset and the company continues to fit squarely with our ambition to be the leading publicly listed, growth-focused investor in Europe. The divestment should be seen in the light of our ambition to maintain our own pace of investment, continue evolving our portfolio towards a larger share of private growth companies.

We also announced that we aim to distribute our shareholding in Millicom to our shareholders. Kinnevik has a long and successful history of systematically reallocating capital from companies where we believe that our tenure as owner is over, into disrupted growth companies that are the leading consumer businesses of tomorrow. The decision to distribute our share holding in Millicom entails a significant distribution of value to our shareholders and is a material step towards increasing our portfolio shares of capital invested in growth companies.

And as a result of our distribution of Millicom and the step change that means for our portfolio composition, we have amended our shareholder remuneration policy. Going forward, we will use dividends received, primarily from Tele2, to fund and accrete our ownership in the companies we believe are tomorrow's winners in our private portfolio, and we will cease to pay an ordinary cash dividend. But instead we will seek to return excess capital when we make successful exits.

We will provide more detail on the Millicom distribution and the amended shareholder policy later on in this presentation.

Over the Next years we will Maintain Our Pace and Invest Our Capital Systematically into the Leading Businesses of Tomorrow

Moving to page 6, and here you will recognise this page from our Capital Markets Day in September. We have laid out how we aim to invest our capital over the coming years. Firstly, we will aim to invest two-thirds of our capital in follow on investments in the proven and high-performing companies in our portfolio, to reach 15-25% ownership levels. We are looking for influence or outcomes rather than control of our companies.

Secondly, we will aim to invest one-third of our capital in new businesses to ensure we keep infusing our system. We will be looking to add two to four new companies per year from 2020 to 2023, spread evenly across our sectors. 80% of the first-round capital will be invested in international growth opportunities, such as, for example, a VillageMD, and 20% of the first round capital will be invested in more early stage opportunities in our Nordic home market, such as, for example, a Pleo[?].

Thirdly, with our target to maintain a portfolio of around 30 companies, we are aiming to exit just as many companies as we are looking to add. This means that we will reallocate capital more dynamically and exit a number of businesses at attractive terms as our relatively young portfolio matures.

Solid Quarter for Our Two Central Platforms

Let us now shift focus to talk about the performance of our operating companies during the quarter, now starting on page 8. Zalando had its strongest ever second quarter in terms of active customer growth, which drove gross merchandise value growth of 24% and revenue growth of 20%. The company also raised its full-year profitability outlook with adjusted EBIT expected to come in at the upper half of the initial €175-225 million range.

Tele2 reported third quarter revenue and end user service revenue in line with the same period last year, but underlining EBITDA grew by 5% and the company realised an addition SEK 150 million of synergies from the Com Hem integration, raising its year-end run rate target to SEK 750 million.

The Distribution of Millicom Marks the End of an Era and Delivers an Extraordinary Distribution of Value of SEK 18bn to Our Shareholders

Turning now to Millicom's financial performance and some more details of Kinnevik's distribution on page 9. Millicom reported largely flat organic service revenue growth in the quarter and added a record of 99,000 subscribers to its fixed footprint. Following its acquisition of Panama's largest mobile operator, Cable Onda, Millicom firmly strengthens its position as the leading telecommunications operator in the country.

Due to a weaker than expected macro backdrop and intensifying competition, Millicom revised its outlook for the full-year, organic, Latin American service revenue growth from 3-5% to slightly above 2%, while keeping the guidance on the operating free cash flow of mid to high single digit.

The distribution of our shareholding in Millicom to our shareholders marks the end of an era. Millicom was founded by Kinnevik almost 30 years ago and since its listing on NASDAQ Stockholm in 2004, it has yielded significant dividends and returns to Kinnevik and its shareholders.

The transaction represents a dividend in kind corresponding to around SEK 60 per share. It also allows our shareholders the options to directly partake in Millicom's future value creation and dividend yield. The distribution is subject to shareholder approval by the Extraordinary General Meeting which will be held on 7th November, and you will find the notice and details of how to register on the Kinnevik website.

Milestone Transactions in Two of Our High-Growth Healthcare Companies

Now, moving to page 10, during our third quarter, we also invested further capital into two of our high growth healthcare companies, Livongo and Babylon. Livongo raised a total of $400 million in its IPO in July and in connection with that, Kinnevik invested $88 million, increasing our ownership stake to 14%. Our continued support in the company is a testament to its strong development since our first investment in March 2017. And just recently, Livongo was awarded its largest contract in the company's history, adding some $50-60 million revenues over the coming two years.

Babylon closed the largest ever funding round in digital health globally with a first close of $400 million. Kinnevik participated with $50 million, taking our ownership stake to 16%, and the capital will be used by the company to further support the growth and innovation strategy. These are two clear examples of us executing on our strategy to allocate capital into companies we believe are tomorrow's winners.

Kinnevik Has Invested $75m in VillageMD, A Leading US-based Provider of Primary Care

Now on page 11, we have an overview of our new exciting investment in VillageMD, a leading US-based provider of primary care and a pioneer in the delivery of value-based care. During the last decade, US healthcare has, to a large extent, bypassed primary care as many patients have gone directly to higher cost specialists and emergency care. This has led to spiralling costs and lower efficiency. By putting primary care doctors back in charge, patients receive more frequent and preventive care, which reduces unexpected trips to the emergency room and avoidable surgeries. This both reduces costs and improves health outcomes.

VillageMD is the platform that provide primary care physicians with the technology, the operational support, care management, and care coordination staff they need to deliver a first-rate patient experience. The company also delivers financial backing and contracting expertise in order for the physicians to establish value-based contract with insurers.

Since its foundation in 2013, the company's grown to serve more than 2,500 physicians; cares for approximately 500,000 lives; and oversees over $3 billion in total medical spend. The company fits very well into our investment thesis as it leverages technology to enable the delivery of better care to more people at lower cost. We also believe the company is highly complementary to our existing portfolio, giving it[?] takes[?] on the risk of a patient's entire healthcare expense.

Our Growth Companies Continued to Focus on Growth, Strategic Partnerships and Product Innovation

Now let us turn to page 12 for an overview of the performance of our growth companies. These companies are seeing continued strong momentum, with focus firmly set on growth, strategic partnerships and product innovation. In addition to Livongo and Babylon, which we have already touched on, I would like to highlight a few other companies on this page.

Global Fashion Group grew its net merchandise value by 23% and revenues by 17%. Notably, share of marketplace increased from 14% to 19% of net merchandise value, which showcases GFG's strong position as a strategic partner of choice for fashion and lifestyle brands in its markets.

Betterment continues its growth trajectory, with a 21% increase in its customer base and 28% growth in assets under management. And during the quarter, the company also introduce a cash management platform called Betterment Everyday.

Finally, MatHem has appointed a new CEO, Johan Lagercrantz, who will assume his position in a little over am months' time.

I would now like to hand over to Joakim for an update on our financial position.

Financial Position

Joakim Andersson

CFO, Kinnevik

We Will Cease to Pay Ordinary Dividends and Instead Re-Invest in Our Private Portfolio to Generate Significant Cash Returns Over Time

Thank you, Georgi. Page 14 is another page you will recognise from our Capital Markets Day. As Georgi mentioned, as a consequence of our distribution of Millicom and pivot towards growth, we will cease to pay ordinary dividends and instead generate shareholder returns primarily through capital appreciation. This should however not be seen as a move to stop paying dividend altogether; we will seek to return excess capital generated by our investments in the form of extra dividends. A reasonable assumption is that we will stay within a range of +/-10% net cash, net debt to portfolio value.

Finally, I would like to clarify that our change in dividend policy does not affect the already communicated dividend to be paid in November of SEK 4 per share.

Solid Net Asset Value Development Driven by Continued Strong Trading in Zalando and Tele2, Partially Offset By Millicom and GFG

On page 15, we present the key contributors to this quarter's NAV development. In the third quarter our NAV increased by 3% to SEK 92 billion, and NAV per share increased to SEK 334.

The main drivers for the uplift were continued strong share price performance in both Zalando and Tele2, as well as an upward revision in the fair value of Babylon. Rather weak share price performance in GFG and Millicom weighed on our overall performance.

As per yesterday, our NAV was flat compared to quarter end, with Zalando down 1% and Livongo up 20%. The value of our unlisted portfolio increased by SEK 2.7 billion to SEK 13.7 billion in total. This increase was driven by the investments in VillageMD and Babylon, as well as the upward revision of Babylon's fair value.

Please turn to page 16 for an overview of our balance sheet.

Strong Balance Sheet in Line with Financial Targets

As you can see on this page, investments amounted to SEK 2.1 billion, and divestments to SEK 5.9 billion, resulting in net divestments and a strengthening of our balance sheet of SEK 3.8 billion in the quarter. Tele2's extraordinary dividend, drawing from the proceeds from the transactions in Kazakhstan and the Netherlands, strengthened our financial position by another SEK 4.1 billion. And altogether and combined with a portfolio value uplift, it reduced our leverage over the quarter from 6% to 0.9%.

With these remarks, I would like to hand back to Georgi to go through our priorities on page 18.

Key Priorities

Georgi Ganev

CEO, Kinnevik

Kinnevik Has Three Clear Priorities Going Forward

Thank you, Joakim. To sum it up, we have three clear priorities going forward. We will continue to evolve the portfolio towards a higher proportion of growth companies in our target sectors and market. Doubling down in Babylon and Livongo, and adding VillageMD to our group of companies are excellent examples of this.

We will strengthen our portfolio balance across sectors, stages and time to liquidity. This means constantly moving capital within the portfolio, but at the same time, holding onto our companies for as long as the risk return opportunity's there. We will relocate capital more dynamically going forward and exit a number of businesses at attractive terms as our relatively young portfolio matures.

In contrast, to providing a regular annual cash dividend, we aim to deliver cash returns when we deliver capital in successful exits. And as said at our Capital Markets Day, as a team we are excited about the next chapter for Kinnevik and we are convinced that we have the portfolio and the pipeline to execute.

Finally, we have announced the appointment of a new CFO at Kinnevik, Erika Söderberg Johnson. Erika is today CFO of Biotage, a global life science company listed in Stockholm, and she will join Kinnevik in the spring of 2020.

I also want to take this opportunity to personally thank Joakim Andersson, who has been the CFO of Kinnevik since 2015, and who also doubled as Kinnevik's interim CEO in 2017. Joakim has been instrumental to me during my first years as CEO. I would like to thank him for his great work for Kinnevik, and our companies, for the past 18 years. I wish you all the best, Joakim, on your new endeavours outside Kinnevik.

We are now ready to answer your questions.

Q&A

Joachim Gunell (DNB Markets): Good day. In terms of YTD capital allocation between new investments and follow-on investments, they have been rather equally divided in the listed portfolio. So, as you mentioned, Georgi, you aim to allocate some two-thirds into follow-on investments into your new winners. Should we perhaps expect the new financing round in the quarters to come here, given your strong financial position?

Georgi Ganev: I think what we are saying with that statement is first of all, the strategy of Kinnevik to start with relatively small tickets in the early stage of a company's cycle, and as we are getting more convinced and see the traction of a company and we justify the thesis or underline the thesis, then we will do our follow on investments.

And then, secondly, if we look at the period that we have now going forward, we have invested, as you know, in many new companies. And therefore, we do not see that we will add that many new companies in the portfolio, but rather follow the ones in that vintage, if you may say. And that leaves the statement of two-thirds going into existing portfolio.

Joachim Gunell: That is clear. And if I am not mistaken, there was a financing round in deposit solutions in September which valued the fintech company at some, I think, €1 billion. It does not seem addressed in your Q3 fair value, so how should we think there?

Georgi Ganev: That specific round was basically linked to certain gates and milestones for that valuation to trigger, and therefore we have done our analysis on our side and we would like to be on the conservative side. And when those milestones are met, we will bring up the valuation. But there were some announcements from other investors that had a different view on those milestones.

Joachim Gunell: And also, on the same topic, there seems to be some discrepancy regarding the valuation of the Quikr that you have versus the independent report filed by, I think, the Indian Ministry of Corporate Affairs. So, any comments there and also your updated view on Quikr's position in your portfolio, given that it has been there for quite some years now and given your new, perhaps, focused geographies?

Georgi Ganev: First of all, if we start with the valuation question, I do not want to go into detail there, but we have our methodology, and that is something we are strict to. So, if we see something like this, we cannot basically just change our valuation methodology. So, we are sticking to our framework.

The second question, whether Quikr fits in our portfolio, as at also the Capital Markets Day, of course we have many times said that the new focus will be more in mature markets; Europe, with a special focus for younger companies in the Nordics, and the US. But since we have now also pruned our portfolio, we have a few companies that we have been with for a while that we also see a strong traction in. Quikr is one example where we have seen this verticalisation strategy being quite efficient in the local market and therefore, we have no intention to change our ownership there in the short-term.

Joachim Gunell: That is clear. And finally, for Joakim, on the second dividend tranche from Millicom, the record date set for it is 6th November I believe, so that is before your AGM. That means that US Kinnevik will be entitled to that dividend, right?

Joakim Andersson: Correct.

Lena Österberg (Carnegie): My question is regarding your pruning strategy. Lately, you have been mainly buying and investing in new companies. You have 26 companies, if I count correctly now, and you have said the limit is 30, and the exits you made have been partial. So, how should we view your pruning strategy? Could you explain it in a little bit more detail? How will a company fit to be pruned? What are the criteria when you decide to exit?

Georgi Ganev: Hi Lena. It is a very relevant question. I think we have been in a pruning phase for a couple of years, of, if I may, say cleaning out the long tail. And what we say now, including the earlier stage company, we would not like to have a portfolio of more than 30 companies because that will make it more difficult for us to be the active and close owners that we want to be.

We biannually review our companies thoroughly, based on the companies' performance. Of course, we look at the performance every month, but twice a year we do a deep dive on each company. Has anything changed to the thesis we had when we did the investment? That is the first question. Secondly, how is the company performing? And if it is not performing according to the expectations – and that for me could be better than expectations or actually worse – we need to understand why. Could it be the team that is better or worse than expected, or something else that has changed? And thirdly, how does that fit with our strategy?

And if we cannot have good answers on these three questions with a company we will continue to dig until we have realised that this company will fit in the portfolio. So, as an example, if nothing has changed in the thesis, the performance, as an example, is worse than the original plan, but we know that we will fix this by replacing part of the team or infusing more capital or whatever that is, then it still fits in our strategy. We are the long-term investors that would most likely keep that company for another round of reviews.

But if something has fundamentally changed in the thesis, so the market has developed in a different way or there are a new large competitor on the landscape that has put this company in a very different position, we might basically scrutinise that investment thesis and go for divestment. This is what I call the more dynamic capital allocation.

And of course, then we add a layer of the expected returns, which means that even though we have a successful journey in one of those companies, it fits squarely with our strategy, but we still see that there are more attractive returns in some other companies, we might still exit that company while that company is growing in a positive way, and reallocate that capital into another company with better returns expectations.

So, that is the systematic approach. Personally, I have taken a lot from how I have been working in an operational company as CEO before. And I think that since we are a mix of a financial investor and an operational investor, being very entrepreneurial, part of building companies, I think that methodology can be applied in a very successful way.

Lena Österberg: Okay. Thank you. Can I also maybe have a follow-up question on your investment in Babylon? Because you did not take your pro rata share in the last funding round, so your ownership has decreased from 20% to 16%. Could you explain how your thinking went here? Because you have a strategy to have, say, 20-25% ownership in a company. And could you also maybe share what was the last valuation in terms of revenue multiple in the last funding round?

Georgi Ganev: I will start with the one why we participated below our pro rata. And as said during this call, we invested SEK 1.8 billion in the healthcare sector, so we really doubled down there. We followed Livongo, a company that we have been following since 2016 or actually a year before, that we see has a very proven business model and a very strong team, and we wanted to be part of that in accreting our ownership from a lower level to a slightly higher.

We also wanted to expand our healthcare portfolio into primary care, into a stable business model such as VillageMD, where we deployed $75 million. So, with a somewhat constraint on capital that we had before the sell down in Zalando, we basically looked at the entire portfolio within healthcare, where we took the decision that we could still invest $50 million in Babylon, have a decent ownership in relation to the other companies and be part of these expansions.

So, I think that was more important to us to let more and new companies in, to a relatively new healthcare portfolio, than to just have a few companies with a large take. It's about portfolio differentiation, you might say.

When it comes to the valuation question, I will hand over to you, Joakim.

Joakim Andersson: The valuation we have done this quarter is based on a multiples purge, as you have seen in the report. But obviously, we also looked at the valuation in this funding round as an indication for where it should be. So, that is the methodology behind it.

Lena Österberg: Could you maybe share what the multiple was?

Joakim Andersson: No, I would pass on that, actually.

Derek Laliberte (ABG Sundal Collier): I had a question on the Millicom distribution and your selection of distribution method involving a share redemption plan. Just wondering if you could give some details around why you selected this specific method and its potential advantages or disadvantages. Thank you.

Joakim Andersson: So, obviously, we evaluated different alternatives for distributing those shares and we found that this structure, by splitting and having mandatory redemption, is more tax efficient for many of our shareholders. It is a somewhat more complex structure, you might argue, but the benefits from the tax side is overweighing that complexity. So, that is why we took that decision.

Georgi Ganev: Thank you very much for listening and for your questions. And as a reminder, the EGM to vote on a proposed distribution of Millicom shares will be held on 7th November and we will report results for the full year of 2019 on 6th February 2020. Have a nice day. Thank you.

[END OF TRANSCRIPT]