Q3 2020 Results

Thursday, 15th October 2020

Key Strategic Highlights

Georgi Ganev

CEO, Kinnevik AB

Opening remarks

Good morning, everyone, and welcome to the presentation of Kinnevik's results for the third quarter of 2020. I am Georgi Ganev, Kinnevik's CEO. With me today is our CFO, Erica Söderberg Johnson, and our Director of Corporate Communications, Torun Litzén, and our Head of Strategy, Samuel Sjöström.

Impact of COVID-19

Before we head into some of the strategic highlights in the quarter, I would like to say that it is evident to all that coronavirus continues to have a devastating effect on people and economists globally. However, at the same time, it is changing fundamental consumer behaviours and accelerating the shift to digital. We are optimistic that the elevated demand for online is likely to remain even as the effects of the pandemic eventually subsides.

The trends we saw in the second quarter have strengthened during the third quarter. Demand for digital healthcare, e-commerce, and online food remains elevated, well above that of previous years. On the other end of the spectrum, the travel sector continues to be weighed down by restrictions and remains uncertain when we can expect to return to some kind of normal.

Key strategic highlights in the third quarter of 2020

Now, on Page Three, we have summarised the key strategic highlights during the quarter. Investment activity has remained vibrant with the announced merger between Livongo and Teladoc health. We also invested in two new businesses in our focus sectors. In our efforts to continue pruning our portfolio and focus our resources, I am also pleased to say that we have divested our shareholding in Home24 and completed our exit from Qliro Group.

NAV

Our net asset value was up 23% in the quarter, when adding back dividend paid of SEK 1.9 billion. This was driven by exceptionally strong share price performance in Zalando and Livongo as well as broad-based revaluations in our private portfolio. In just a short while, Erica will take you through the development of our NAV in more detail as well as the valuations of our unlisted companies. Our strong balance sheet puts us in a very good position to execute on our investment strategy. We continue to identify and assess a number of exciting opportunities.

Livongo intended to merge with Teladoc, creating a consumer-centred virtual care platform for a full spectrum of healthcare needs

Strategic rationale

Now, on Page Four, we have provided you with some details on the announced merger between Livongo and Teladoc. We believe that a merger makes strong strategic sense. It joins two highly complementary companies, combining Teladoc's reach and large customer base with Livongo's robust programmes for treating chronic conditions. This will create the largest consumer-centred virtual care platform for a full spectrum of health needs. The merger will also create significant synergies and we are excited to become the second-largest institutional shareholder in the combined new company.

Our investment history and returns

We first invested in the Livongo back in 2017 as part of our healthcare investment strategy and, since then, we have led several financing rounds in the company. So far, we have generated an unrealised return of around 11x our invested capital into the company and around 6x into the broader sector.

A transformative transaction validating our investment strategy

The proposed transaction truly validates our strategy. At the close of the third quarter, the value of our stake in Livongo represents an unrealised return of 228%. When the merger has been completed, Kinnevik will own a 4.5% stake in the combined company and receive SEK 1.3 billion in cash. The merger is expected to close in the fourth quarter of 2020.

Kinnevik has invested SEK 184 million in Common, a residential brand and technology-enabled property manager

Investment overview

Now, moving on to our investment in Common on Slide Five. Common is a residential brand and tech-enabled managed marketplace. They combine technology with a unique operating platform that delivers a better experience for renters, while also generating a high return for the real estate owners. Rental costs are often the largest share of consumer wallet. Yet, the rental market has seen limited innovation and technology investment for many years.

Case validity

Real estate owners choose Common as they offer a hassle-free experience, including virtual apartment tours, standardised furniture, and all-inclusive flexible rentals. Renters get to keep the good parts of co-living while Common takes care of the annoyances and run day-to-day operations without itself assuming lease risk.

Our investment in Common is part of our strategy to broaden our Consumer Services portfolio towards business models that reflect broader consumer trends. It also fits perfectly into our vision of providing more and better choice for the consumer.

Kinnevik has invested SEK 131 million into Joint Academy, a Swedish digital health company specialised in chronic joint pain

Investment overview

On Page Six is an overview of our second new investment in this quarter, Joint Academy. This is our first investment in the digital healthcare space in the Nordics. Joint Academy was founded by a father-and-son team, where the father is a professor and the founder of what is considered the Swedish gold standard for treatment of joint pain. The son digitalised the treatment, making it globally scalable and much more cost-efficient.

Case validity

Around 80% of global healthcare costs stemmed from 15 chronic diseases. Chronic joint pain is the fifth most common. As such, Joint Academy addresses one of the largest cost drivers in the global healthcare system. They do this by digitalising a proven clinical method that has been developed over many years, generating superior outcomes.

With our strong belief in the power of digital care to manage chronic conditions and improve patients' lives, this investment sits perfectly at the intersection of a Nordic venture in international healthcare strategies.

Zalando and Livongo are developing, strongly fuelled by digital trends, while Tele2 is showing relative stability in a challenging market

On Page Seven, we have provided some more details on the performance of our large listed companies. E-commerce has seen a tremendous rebound in the last few months, driven by faster than expected recovering consumer demand and an overall increase in demand for online.

Last week, Zalando raised its full-year 2020 outlook on the back of exceptionally strong and profitable growth in the third quarter. Tele2 has remained stable through 2020, with less exposure to expensive paid TV sports rights than peers. Livongo has continued its stellar operational performance during the quarter as the adoption of digital health becomes more widespread.

Our younger growth companies continue to experience strong demand and inflow of new customers

Customer retention and engagement will be key

Now, looking at our younger growth portfolio, we have highlighted a few of our companies on the next page. Moving to Page Eight. Our online grocery companies, Kolonial and MatHem have seen a significant increase in demand and inflow of new customers due to the accelerated shift to digital.

Going forward, customer retention and engagement will be key in retaining these new customer groups. So far, these customers have shown similar behaviours, in terms of retention and purchase frequency, as pre-pandemic customers. This makes us optimistic that the elevated demand is likely to last in the longer term.

Similar to Zalando, Global Fashion Group also upgraded its full-year guidance for 2020 on the back of strong growth and profitability. The company is now expecting Q3 to be the second consecutive quarter with positive cash flow and profitability, with respect to the adjusted EBITDA. They are also expecting to approach break-even on adjusted EBITDA for the full year of 2020.

I would now like to hand over to Erika to go through the valuations of our unlisted assets and our financial position, starting on Page Nine.

Portfolio Companies' Performance and Kinnevik's Financial Position

Erika Söderberg Johnson

CFO, Kinnevik AB

Our NAV is up SEK 20.3 billion, or 23%, in the quarter, driven by e-commerce rallies and continued strong performance in healthcare

Thank you, Georgi. As you mentioned, the trends we started to see in the second quarter have strengthened during the third quarter. Our large listed companies have continued to trade very strongly in the quarter, supporting our net asset value development. Furthermore, we have reassessed the fair value of a number of our private companies due to market and company developments. The fair value of our private portfolio was written up by just under SEK 1 billion, or 7%, during the quarter. With net investments of just over SEK 700 million, the total value increase of the private portfolio amounted to SEK 1.7 billion.

Rallies: Fashion e-commerce – Zalando and Global Fashion Group

Looking at the development of our net asset value during the quarter, we believe our portfolio can largely be divided into three categories of companies. In the first category are our fashion e-commerce companies, Zalando and Global Fashion Group.

They continued to rally in the quarter with continued consumer and investor interest in digital services fuelling multiple expansion well above pre-COVID levels. Zalando's share price was up 27% during the quarter and GFG was up over 90%.

More resilient: Healthcare – Tele2 and Livongo

In the second category are our more resilient businesses. These include Tela2, our healthcare companies, and our online food, and last-mile businesses. Tele2 has remained defensive during the quarter, up 2%. Livongo has continued its stellar performance with a share price appreciation of almost 80%.

During the quarter, the IPO of Oak Street Health provided a strong indication of investors' interest in value-based care delivery operators, such as VillageMD and Cityblock. Also, operators of virtual health and telemedicine services continue to be valued with material premiums compared to in-person primary care peers.

More resilient: Healthcare – VillageMD

Valuing our businesses in these sectors, we continue to focus on achieved financial performance in assessing our fair values. VillageMD continues to perform strongly and we have written up the value of our stake by almost SEK 1.1 billion, or 45%, whereof SEK 232 million stems from our investment in early July.

We recently announced – the recently announced partnership with Walgreens and its impact on the future outlook for VillageMD provides continued support for multiple expansion, although the company is still valued at a material discount to peers.

More resilient: Healthcare – Cityblock, Babylon, and Teladoc

We have written up our stake in Cityblock by 34%, driven by the company's performance as our trailing revenue multiple is unchanged from the previous quarter. The fair value of Babylon is unchanged in the quarter, save for some currency headwinds.

Our valuation is primarily based on a set of specific operational future milestones. So far, the company is on track to deliver on these milestones, effectively growing into its valuation. However, we are expecting to have better visibility during the fourth quarter. As and when we get further visibility on these milestones, we can reassess our fair value.

Our valuation corresponds to approximately 21x Babylon's forecasted 2020 revenues, a slight premium to the average of a peer group of disruptive healthcare and healthcare IT companies, including Teladoc, which have seen moderately positive trading in the quarter.

More resilient: Online food – MatHem and Kolonial

Our online food companies continue to enjoy elevated growth rates even as the initial COVID-driven peak in customer intake and order values is behind us. We have written up MatHem by 8% and Kolonial by 11% in the quarter, reflecting the company's strong performance as multiples are unchanged.

Less resilient: Travel – Omio

In the third category are our travel, financial services, and emerging markets assets. We wrote down the value of Omio by 13%. However, adding our convertible investment in the company, the fair value of our investment was up 11% in the quarter.

Less resilient: Travel – TravelPerk

TravelPerk continues to face challenges, but is performing at a strong level, considering the weakness of the underlying market. In light of the write-down in the previous quarter, we therefore kept our valuation of TravelPerk largely flat.

NAV development

All in all, our net asset value amounted to SEK 107.9 billion at the end of September. That is SEK 388 per share and represents an increase in the third quarter of SEK 20.3 billion, or 23%, when adding back dividends paid. Our share price appreciated by almost 52% compared to NASDAQ trading up 10% and the OMX S30 up 7%.

We are, of course, as always, happy to answer any questions you may have on our valuations when we move to Q&A. However, I also want to highlight Pages 23 to 25 in the Quarterly Report, where we have elaborated more on our valuation assessments and methodologies used.

Finally, with yesterday's closing prices of our listed assets, our net asset value was SEK 112.7 billion, up 4% so far this month. This was largely driven by continued strong trading in Global Fashion Group and Zalando.

Pro forma Tele2's dividends and the Livongo-Teladoc merger, our SEK 3 billion net cash position grows to SEK 5.5 billion

Capital structure and financial capabilities

Now, please turn to Page Ten for an update on our financial position. During the quarter, we made net investments of SEK 0.5 billion and paid dividend of SEK 1.9 billion to our shareholders, taking our net cash position to SEK 3 billion.

Adjusting for the dividend received from Tele2 in the beginning of October, our net cash position amounted to SEK 4.2 billion, and pro forma also for the SEK 1.3 billion in cash consideration expected after the close of the Livongo-Teladoc merger later on in Q4, our cash position at the end of Q3 would have amounted to SEK 5.5 billion.

In summary, we have a very strong financial position which gives us full flexibility to execute on our investment strategy. With that, I would like to hand back over to Georgi for a comment on our key priorities, going forward, on Page 11.

Key Priorities

Georgia Ganev

CEO, Kinnevik AB

Kinnevik has three clear priorities, going forward

> *Continue to evolve the portfolio, strengthen the portfolio, and reallocate capital more dynamically*

Thank you, Erika. We remain firmly focussed, dynamically reallocating capital and pivot our portfolio towards a higher proportion of growth companies. As we have proven this quarter, we continue to strengthen the balance in our portfolio across sectors, stages, and maturities. We also remain prudent by exiting companies where we believe our ten US owners is over.

The world is still deeply impacted by the pandemic. I am truly humbled by the hard work and dedication shown by all our companies. They have been flexible and really stretched their capabilities to be able to serve their customers with more and better choice.

As always, I am also very grateful for the continued strong support from our shareholders. Before we move on to the Q&A, I would like to mention that we are planning to host a digital Capital Markets Day later this fall. We will get back to you with more details on the date and programme.

Now, we are ready to answer your questions.

Q&A

Derek Laliberte (ABG Sundal Collier Norge): Yes. Hello. I have a question on the Kolonial. There was news that the company is expanding its – or increasing its capacity and they are building a new warehouse. I was wondering if this implies any funding for the company.

Georgi Ganev: Hi, there. Thank you for that question. We are currently in a dialogue with the Kolonial regarding funding needs. It is nothing specified yet, but we are truly supportive of that company. Again, first of all, we have seen efficiency increase materially. We have also seen a great scale scalability during the pandemic – so, kind of our thesis around making money on online groceries is proven.

We also see that there is more opportunities for Kolonial both in Norway, but, probably with their technology, also elsewhere. We are very supportive, but we have no kind of news on exactly what it means, in terms of funding. However, we are in a dialogue with the company on that.

Derek Laliberte: Okay. Exciting. It is very clear. I then have a question on – if you could just elaborate a bit on these milestones in Babylon and that you were referencing, in connection with the valuation? You have this 21x sales multiple. However, just what these milestones are sort of approximately on them and how they are connected to your sort of assessment on all devaluation?

Georgi Ganev: Yes. Let me then start with the milestones, from a commercial standpoint, and I will hand over to Samuel to go a bit more deeper how it impacts our valuation and how we think about it, going forward.

When we invested in in Babylon, it was on the back of their being able to position their B2B offers – basically, how they can sell their services to other large players in a very positive way. The first contract, as you perhaps know, was the Prudential contract in Asia. The second launch was the Centene contract in the US. Babylon, they have this more kind of B2C service with NHS in the UK. However, in US and in Asia, we are primarily working with partners

The Centene contract was a large-frame agreement with one of the largest hospital groups in the US. So to scale with that customer across United States was key for us when we put the valuation mark at the last fundraise. That is something that we are very excited about. As we say in the report, we also see that the company is performing according to those milestones. However, it is really about the development of the Centene contract.

Samuel, if you would like to explain why we are using that as a basis for our valuation?

Samuel Sjöström: Sure. Hi, Derek. As you know and as we have pointed out in the past, Babylon is a sort of hyper-growth business aiming to grow by 4x this year to $280 million and another 5x next year. With a company growing at that pace, forecasting is very tricky and, therefore, also fairly volatile. That is sort of why we have elected to focus on these milestones.

I think Georgi covered them fairly well. I can just sort of sum up that, in short, these milestones relate to the degree to which Babylon is delivering on a handful of key contracts, including the ones Georgi mentioned, and that they are recognising revenues at the pace and at the magnitude that we believe justifies our current mark.

I could add that if Babylon reaches their 2020 ambitions, I believe we can safely say that they will also have reached these milestones, which, sort of all else equal, would have a positive effect on our fair value in coming quarters.

Derek Laliberte: Okay. Interesting. That sounds very reasonable. The funding status of the company, where are we there? Also, from your point of view, what would be the benefits from this company being public, potentially, going forward?

Georgi Ganev: I think it is clear to all of us that the multiples in the public markets, they are quite high right now in this sector. Of course, a public – the company being public would mean that it – the company would have the currency to continue to expand and also to expand inorganically. In terms of M&A and consolidation, that could be very interesting. However, we do not see it as a prerequisite for this company to grow.

There is great demand for these type of exposures from investors, both in the private and public markets. Right now, with the current trend that we see in Babylon and the team's ability to expand into the US with these large partners, we feel comfortable that there will be great demand, both in private and public markets. However, having said that, in the public market, the multiples are high and it will give them the strong currency to acquire companies.

Derek Laliberte: Thank you. That is very clear. Just finally, on this new investment in Common within Consumer Services. I think Consumer Services, obviously, is a quite wide sector. Also, that is sort of evident by all the investments that you have in this sector. Can you – obviously, this was within real estate, but are there any sub-sectors or segments in

Consumer Services that you are specifically targeting for any potential new investments additionally?

Georgi Ganev: I think the answer is that within Consumer Services, we are looking at quite many sub-sectors, to be honest, but we try to not go too deep into the sectors. If we look at Common, as an example, they are not kind of real estate investors. They are providing a managed marketplace as a layer in between the end customer and the property owners. That is where we understand the business models from other marketplace solutions. With that experience that we have scaling such a marketplace, we can actually be an active owner in companies like Common, for instance.

Another sector we looked at into that expects or sees a lot of headwind today is the travel sector. Same thing there. We look at marketplaces within the travel sector with Omio and TravelPerk. We can apply the same type of models and metrics that we have seen, for instance, in fashion and e-com into those sectors.

What you could expect is that we will be looking at a quite broad portfolio of sub-sectors, but try to stay relatively kind of light in a light asset way, if you will.

Derek Laliberte: Got you. That is very clear. Thanks.

Joachim Gunell (DNB Markets): Thank you very much. Perhaps to follow up where we left. It is very interesting with them to hear into Common. Where do you believe, Georgi, that Kinnevik are the best place to add value to your company like Common, given that it is – this is your first invest on property tech?

Georgi Ganev: As I said earlier, I think our consumer angle is extremely important to have right in these companies. If I look at Livongo, as another example, when we came into Livongo, we were not the experts of healthcare, but we understood it from the consumer standpoint.

Within this space, at that time in 2017, many of the companies were focussing on the partners with other large healthcare providers and not towards the kind of the member – the end user of their services. That is the same thing with Common. We take the customers perspective – how we can make a better solution for the customers – and, of course, partnering up with someone who understands the ecosystem of real estate. That is the main contributor.

We also have, I think by that, the understanding of how to scale efficiency when it comes to customer acquisition. What are the unique kind of unit economics for a company that is successful? How can we use that marketing and customer acquisition knowledge in a company like Common?

Thirdly, again, being a long-term partner, these entrepreneurs – often serial entrepreneurs that chooses to cooperate and partner up with Kinnevik – they are looking for a long-term investor because a business like Common, we do not expect that to have an immediate hockey-stick growth in the next quarter, but rather build up a very solid business over a longer period of time. That also fits squarely with the kind of the DNA and the methodology that we have at Kinnevik.

Joachim Gunell: Very interesting. That is very helpful, Georgi. Coming back to the topic we discussed on Babylon, but not for Babylon. You commented earlier this year that a potential option, going forward, for VillageMD is an eventual IPO. However, given now how the US market seems to reward this type of value-based care providers, is that also an option for Cityblock? Where are they, in terms of maturity? Any colour there would be helpful.

Georgi Ganev: Yes. I think when it comes to the Healthcare portfolio, even though it is above 20% now, as the kind of the share of our entire portfolio, we have to remember that we have those 22% spread across different kind of sub-sectors within Healthcare and also maturities. The whole point with Cityblock versus VillageMD is that Village is a more mature company and they are larger. I think in terms of kind of a public listing, Village is probably earlier out than a company like Cityblock.

However, having said that, we believe that the models that both these companies represent fits very well in the public market and there is a clear demand for it. Going back, again, to what we said early in the presentation, when Erika went through the valuations, we still see a gap between the multiple that we use for Village and the public traded peers. We have no other plan than to close that gap over time as the company continues to perform and potentially come closer to an IPO.

Joachim Gunell: Very clear. Then, just finally for me, you have really increased the transparency here, regarding operational KPIs and then some financial data for some of your companies here. That has really helped the investment community understand the potential. We have seen that in the shares, I believe, as of this year. Are there any companies here that we should expect more transparency from, going forward, in the coming year?

Georgi Ganev: I think it is difficult to say because as we are not kind of in a controlled situation in any our companies, it is a discussion between the other shareholders and, of course, the Management. Typically, the reason for not sharing is that for competitive reasons, these companies would like to operate in more in a quiet environment.

I think it is difficult for us to commit to that. Our intention and ambition is actually to continue to be more transparent, especially for those companies that are more mature and coming closer to a potential IPO or a trade sale.

Joachim Gunell: Roger that. Thank you very much.

Lena Österberg (Carnegie Investment Bank): Good morning. I am sorry, I am coming with the boring questions here. My first one is on MatHem. Kolonial had a very strong growth in the quarter. However, if I compare MatHem to its peers, we had, I guess, online sales up 148%; and Axfood, 128% in Q2. I think if we look at LTMs, it goes up 65%. Axfood s up 61%.

Why is the company underperforming so sharply? I know that they have had some problems, but it is a wide difference. When do you think the company will be equipped to deal with higher demand? Do you think it is too late for them? Did they miss out on this COVID boom?

Georgi Ganev: I –

Lena Österberg: Yes? I have some more, but go and you start with that.

Georgi Ganev: Is it okay to answer that question first, Lena?

Lena Österberg: Yes.

Georgi Ganev: Yes?

Lena Österberg: Yes, please do.

Georgi Ganev: I think the first important point here to mention is that we are looking at the total growth online from these players. They include click-and-collect. What you need to ask them is what is the share of click-and-collect growth, which means that you order online, but you, as a customer, go and pick up the groceries in the store. Often, these groceries are then picked in the store as well, which is very different from the pure online growth that we see at Kolonial or at MatHem that has no other options than order online and deliver it to home. That is the first important distinction.

The second question is that how much is this a transition from their existing customers going online rather than capturing new customers from competitors? That is the second question which you have to look at the overall growth of these companies.

The third parameter here is that the difference between MatHem and Kolonial is the automated warehouse. Whereas Kolonial has been able to scale and to kind of deliver on that surge in demand we saw especially in the first couple of months in the pandemic, that has not been the same situation for MatHem.

However, having said that, MatHem opened up a second warehouse, taking over Foodie's premises, and they have scaled and delivered growth early in the pandemic of around 50%. If you look at those things, you will compare more kind of apples to apples than the figures that you just stated.

Then, I think, lastly, we should also remember that the strategy for MatHem is to focus on the larger urban areas in Sweden – so, Stockholm, with kind of Mälardalen as an area, so Uppsala, Västerås, etc., around, right? Then, you have the Gothenburg area and Malmö area. That covers roughly 50% of Swedish population. That is also a difference.

Just before the pandemic, Axfood announced that MatHem SA actually withdrew their offer in the Malmö region. They do not offer that service anymore through MatHem SA. They are going all in with Village, where the majority of the growth is click-and-collect.

Lena Österberg: Can I ask you would not click-and-collect grow less in the pandemic? Would not the pure online version have a faster growth because people would not want to go to the stores?

Georgi Ganev: That is a philosophical question. The fact tells me that click-and-collect grows faster. I think the answer there is that those models are – that model is pushed by the incumbent because if you are an incumbent and you have a large store chain, your value network is already equipped for you to actually bring out the groceries to the stores. There you have people working, picking in the stores. If you do not have an automated warehouse tailored to e-com, you want to use that network.

If you have a lot of customers, you are pushing that model. It is not what the customer wants. We believe that over time, what the consumer wants is actually to order online and get the food delivered to their home. That will save around 90 minutes per week. I think that is the key thing here that we are betting on and what we hopefully will see over time.

Lena Österberg: However, do you – did – let me phrase it this way. Do you fear that they have missed this – if COVID has been an opportunity? For a few people, it has been, but in this sector, it has been. Do you fear that they have missed this opportunity because of the lack of automation and the difficulty to scale up?

Georgi Ganev: No, not at all. I would argue that MatHem is growing within their market share on pure online. They have captured market share –

Lena Österberg: Okay.

Georgi Ganev: – in that segment. Again, you need to take out the pure online – so, delivered to home – and you need to look at the regions where they are active. If you are doing that compared to the incumbents, I would argue that MatHem is taking market share during the pandemic. It is the contrary.

Lena Österberg: Yes. I am sorry, I am going to continue to focus on the less-performing assets because everybody else has asked about the great ones already.

Georgi Ganev: That is fine.

Lena Österberg: However, just trying to understand Karma. Why is that growth coming down? If you could just maybe say something about that? Also, that Budbee, which, I would assume, would also be a beneficiary from more online sales during the pandemic. Why is that seasonality and why is the sales trending down there?

Georgi Ganev: If we look at Karma first, I think we have to mention that that is a very small share, right, of our portfolio. I appreciate that you asked the question. It is around SEK 40 million and 0.004% of the portfolio.

Nevertheless, it is not growing as fast because of the restaurant businesses during the pandemic have also had some struggles, right – the cafes, etc., – with not as many people visiting them. It has more kind of a link to the restaurant business during COVID and the cafes, the delis.

When it comes to Budbee, there we see a great demand for their services, I think, based on two things: The general e-commerce trend is driving the need for delivery services. Then, of course, with the preparation by many e-tailers.

With the fact that Amazon will launch in Sweden, they need to have a very good alternative. If you assume that Amazon will take a significant part of the e-com market – but, of course, not 100% of it – all the rest will have to have delivery options that is actually in line with what Amazon can offer. Right?

A lot of e-tailers have upgraded their offering on the last-mile delivery option, which has resulted in Budbee growing this fast. Maybe I missed your question regarding Budbee.

Lena Österberg: It was more that the trend is going down, I thought, when I looked at it – the graph just that you had which showed the revenues for deliveries.

Georgi Ganev: Okay. It is the number of a –

Lena Österberg: It is raised on –

Georgi Ganev: Yes.

Lena Österberg: – Slide Eight.

Georgi Ganev: Yes. It is the number of –

Lena Österberg: Yes.

Georgi Ganev: – new merchants.

Lena Österberg: Yes.

Georgi Ganev: Sorry.

Lena Österberg: That was on new merchants, yes.

Georgi Ganev: Yes. That is not the trend in deliveries. This is the signed-up merchants and that was boosted during the pandemic where, actually, a lot of merchants had to actually add this as an option in order to capture e-commerce sales. It is basically a number of merchants trend rather than number of deliveries.

Lena Österberg: Okay. Could you say something – the number deliveries is still –

Georgi Ganev: Yes.

Lena Österberg: – kind of growing there sharply.

Georgi Ganev: Yes.

Lena Österberg: Okay.

Georgi Ganev: Yes. Of course. If we look at the speed that they are growing, they have tripled the revenues in 2019 to SEK 150 million and surpassed that level already by the Q2 this year. By the end of second quarter this year, they have surpassed their growth in 2019 and the 2019 growth was tripled the year before. We are talking about several x in growth per year.

Lena Österberg: Yes. That is good to know. Okay, perfect. Thank you.

Georgi Ganev: Thank you, Lena.

Stefan Wård (Pareto Securities): Yes, hello. Thank you. I have a question about the portfolio construction in the broader sense. You have a very strong balance sheet now with the pro forma net cash of SEK 5.5 billion and total liquidity around SEK 15 billion. After the Teladoc or Livongo divestment, you will have a fairly liquid asset that is currently valued at around SEK 13 billion. It seems like you have a lot of financial flexibility.

Adding to that, the performance of Zalando is clearly satisfying and they are being the free cash flow positive already in 2020. I expect that free cash flow generation is probably going to expand over the next few years as the company continues to expand its business. Also, Zalando has this huge cash position of SEK 2.4 billion.

In that perspective, has not Tele2 sort of played out its role a bit for Kinnevik? It is a slow-growing asset. You do not really need that dividend for stability with your own balance sheet. By reducing Tele2, you would clearly improve the potential for generating returns in Kinnevik. Could you give a bit of your view on the reasoning? Thank you.

Georgi Ganev: Hi, Stefan. I would say, first of all, even though Zalando has a very strong cash position, especially after the convertible, we support growth. We believe that Zalando can do a lot more on growth. They have a great and unique position in helping brands to become more successful, both in their kind of partner programme and also in their wholesale model.

The kind of strategy that they have had is to grow organically and being kind of also prudent in launching new concepts. We believe and support that Zalando will continue to do that, maybe at an even higher pace, going forward, given that they have such a strong position, both in terms of cash and also in the market. We do not foresee or we do not expect any dividend from Zalando in the near term. I think you, as an investor in Zalando, you should reason the same way.

That is, of course, very different from Tele2, which is a yield player. I have said it before, I think, that Tele2 can do much more, both in capturing synergies, but also using this position that they have now with fixed mobile convergence in the market and deliver good services that will take them back to growth.

We have said before and we can repeat again that Tele2 is needed to fuel our transformation as a company. It also creates this counterweight in the portfolio because in bad times, when multiples go down instead of up, you have this more kind of defensive stable asset that could provide yield. That, of course, is very comfortable for us, as a growth investor.

I think time will tell, going forward, what would happen. Right now, however, we do not have any other plans than so.

Stefan Wård: Okay. Thank you.

Nizla Naizer (Deutsche Bank): Great. Thank you. Three questions from my end. The first is on, I guess, fashion e-commerce in Zalando and Global Fashion Group. In your view, from what you have seen on the ground, do you think that elevated demand for e-commerce and that structural shift would continue more aggressively, going forward, now that people have gotten more used to the idea of online fashion, and online purchasing rather, during the time of the pandemic? That is question one.

Two, Zalando, with its rally, is, again, a very sizable part of your portfolio. Are you happy with the size of your exposure or do you think that at some point, some adjustments would be needed if this exposure to the lender continues to increase on the back of their own strong performance?

Lastly, just given that e-commerce has done so well, curious to understand why you disposed your stake in Home24, which, I guess, would have been exposed to the same sort of drivers? Some colour there would be great. Thank you.

Georgi Ganev: Thank you, Nizla. I think on the general trends, first of all, we definitely believe that the elevated growth that we have seen will continue and continue at a higher pace than pre-pandemic. Why is that? Firstly is exactly as you say – people that have learned how to shop online, and especially among new customer groups – so, elderly people, etc., that were maybe not so used to shop online have realised that is a good way of shopping and convenient way of shopping.

However, there is also another reason. That, actually, is that the offline player – the traditional players have had no options than to accelerate their online strategy. Right? We cannot be protective anymore during a lockdown. By having incumbents pushing the online channel, that will also help the whole market – the whole segment to grow. If you are well-positioned as the number one or number two in a region, you will benefit from that tailwind. We are optimistic that this change and this accelerated consumer behaviour will actually be positive for our companies in this space, going forward as well.

When it comes to Home24 and some other smaller e-com players that we have had, we have taken a decision to prune the portfolio so we can focus on some of the larger assets or the assets where we see potential for them to actually move the needle for Kinnevik at large. However, there is also some other differences.

I would say between fashion and selling sofas online is a big difference. Difference in in complexity of delivery. It requires two-man handling. It requires a different type of logistic chain, which is, of course, solvable. We see great progress in certain companies as well. However, it is a different gameplay than what we see in the kind of more asset-light marketplace solutions and within fashion, specifically.

Therefore, we are taking both, a kind of strategic decision based on that, but also because of our need to focus. Maybe – did I miss something around – you can fill in Samuel? The – yes, exactly, the portfolio concentration. Sorry.

No, I think it is definitely a luxury problem. It is a problem, but it is a luxury that we have companies in the portfolio right now performing really, really strong. I have no further comments on that. As you know, we have done two sell-downs in Zalando. We have recouped the capital that we have invested. Nevertheless, our stake today is worth more than before that sell-down. That, I think, is a luxury. We are humbled and we are very pleased to have a company with that type of performance in our portfolio.

Nizla Naizer: Got it. Thank you. Very helpful.

Johan Sjöberg (Danske Bank): Thank you. I apologise if you have answered this question before. However, I want to come back to mark them and talk a little bit about the valuation of that. Do I interpret it right, when I look at Page Number 23, that you have a 25% discount on MatHem versus peers? You referred that it is less mature than the peer group? Is that the way you – is that correct or…?

Samuel Sjöström: That is correct.

Johan Sjöberg: Can I – is this the first time – because I have been looking at previous results. You have not used this 25%. Is this the first time you are doing that or is that a new evaluation method that you apply now or…?

Samuel Sjöström: The method is the same. The discount has expanded slightly. That is to reflect the differences in business model because the peer set that we benchmark MatHem and Kolonial against are not online grocers. There are no pure play listed online grocers available to compare our businesses to. As you know, Ocado has a different model.

Johan Sjöberg: Yes.

Samuel Sjöström: We are trying to reflect a lot of things in that discount, but that is one of them.

Johan Sjöberg: Okay. In terms of profitability during the quarter, there was some – I do not know if it was a slippage of your tongue last quarter earlier from your side here. However, if I remember correctly, you were profitable. I think it was in Kolonial during the first month of the pandemic. Is that – can you talk a little bit about how – about the profitability in these two names –

Georgi Ganev: Yes.

Johan Sjöberg: – right now?

Georgi Ganev: Yes. That is correct. What we saw with increased demand is that they had the ability to capture because of their automated warehouse and, more importantly, keep their efficiency. Even though they had to add a lot of kind of employees on weekends and so forth, they still managed to deliver a very high efficiency. Units per hour, as you measure. That means that we can now kind of see that the model works and it is possible to make money selling food online.

That has not been the case for MatHem, for obvious reasons. With a manual warehouse that you have also outgrown, more or less, in terms of efficiency improvements, you – the main objective and the vision was to capture as much growth as possible, but with a scalability that cannot be there until we have the automated warehouse that we will have in 2022. We will have to kind of invest in order to capture market share.

Johan Sjöberg: Was Kolonial profitable in Q2 – sorry, in Q3?

Georgi Ganev: I do not want to comment on full quarters. However, since we are supporting growth, we have actually increased our marketing spend again after the pandemic –

Johan Sjöberg: Yes.

Georgi Ganev: – in order to grow as fast as possible rather than becoming profitable.

Johan Sjöberg: Yes. Fine.

Georgi Ganev: We used that –

Johan Sjöberg: Yes.

Georgi Ganev: – couple of months to verify the model. If you will test the scalability of the automated warehouse, that is enough for us. Our thesis has been proven. Therefore, we can go back to aggressive growth.

Johan Sjöberg: Okay. Can I ask you also about Babylon and also VillageMD? Looking at the valuation of these names, you say that it will take some gradual or it will – there is a big discount right now. However, you add that there are some kind of time – or there are some things which you want to achieve before you apply the full market valuation, so to speak, in looking at how – what sort of timeframe would you say that you will – you are looking for before we will see the – your – like your market valuation or full peer group valuation on these names in your own books?

Samuel Sjöström: Right. If we start off with VillageMD and City – that sort of share comparables, I think I can give a fairly simple answer to why our mark is where it is and that we are not giving you this massive rewriting this quarter. That is simply because in both companies, we had fairly material transactions in early July at Village and end of June at Cityblock. We need to –

Johan Sjöberg: Yes.

Samuel Sjöström: – relate to and sort of respect the marks that were established in those transactions, which is why we are not sort of merely taking Oak Street Health's revenue multiple and slapping it on our businesses and calling it a day. It is more complex than that.

Let us see how Oak Street trades. It was IPO-ed sort of two months ago. Free float is fairly limited. However, provided our businesses continue to perform and markets continue to be supportive, we do not see sort of any reason to why we should not be able to narrow this gap in a consistent way over the coming quarters.

Johan Sjöberg: Okay. Final question from me. It is about Livongo and also Teladoc merger. Yes, you would be the second largest institutional owner in your company. Still, however, you will have an ownership stake in that company, which is clearly below what you are aiming for, when in terms of your own stakes. How do you reason about your future ownership in Teladoc-Livongo? Are you fully committed long-term owners? Are you – or what – how – what is your long-term ambition here since you have your own – your investment criteria also?

Georgi Ganev: First of all, we are always committed owners until we are not. I guess that, of course –

Johan Sjöberg: Yes, of course.

Georgi Ganev: – we believe in the company's future. As we have said, we believe in significant synergies here, not to say least in the cross-selling opportunities between the large customer base of Teladoc being able to offer Livongo services. We are very positive around this merger. Therefore, we would like to capture those synergies. What that means for our ownership, going forward, I think it is something I cannot comment today.

Maybe, however, one thing regarding the 4.5%. As we said before, we have an ambition and we are aiming for 15% to 25%. However, what is more important, we say that we would like to influence outcomes. Right? We are not necessarily looking for control.

Johan Sjöberg: Right.

Georgi Ganev: In this case, again, as you say, we are the second largest institutional shareholders. We have Board representation. We also have, to say, a very close relationship with other directors such as Glen Tullman, the founder and the former CEO of Livongo. We believe that we can actually manage the outcome of that company in a fairly good way. It is not that we are running our companies in an Excel spreadsheet every quarter and then that spreadsheet decides what company to sell because of these parameters.

Now, we ended up with this merger because we believe it makes strategic sense. One consequence of that is that our ownership goes down for plus – from plus-10% to sub-5%. That is what it is. We are, again, very happy. We are humbled for what we have seen in this sector. However, we are mostly very excited about being owners of Teladoc.

Johan Sjöberg: Yes, it is an amazing story. Absolutely. In terms of your ownership in Babylon, you do not see any – these two coming – come – becoming competitors now when Babylon is entering the US market?

Georgi Ganev: I think that is a relevant question. Over time, obviously, there will be more consolidations and, I think, more competitiveness between some companies. We, as an investor, we believe we have the luxury to invest in several companies, once again, spread across geographies, stages, and maturities, and so forth. That is a way for us to, if you will, hedge in the sector and capture as much of the positive outcome as possible.

What is important to, I think, remember is that if you think about two kind of mega trends within the healthcare sector today, one is the digitalisation of virtual care and the other trend is value-based care. We have companies exposed in either kind of the virtual care piece, which is more Teladoc. We have companies more exposed into value-based care, such as VillageMD and Cityblock.

What Babylon is doing is that they are exposed to both of these trends. They have the position to become one of the larger value-based care providers, but on a virtual basis – so, using virtual care as the way to become more efficient – as they take onboard more risks with their contracts that they are now launching with Prudential and Centene.

We think that is a very exciting story in itself. Of course, it entails some execution risk as it does. Therefore, that company is, I would say, a bit earlier in maturity compared to VillageMD or Teladoc.

Johan Sjöberg: Great. Thank you very much.

Ramil Koria (SEB Research): Morning, everyone. Thank you guys for the presentation. You have gotten a lot of great questions during this call. However, let me just try to pick your brains on a topic I found particularly interesting being narrowing the gap versus public payers, in terms of valuation.

A very high-level one. However, could there be a risk in narrowing the gap too soon, which would sort of mean that if the company decides to remain public – private and raise new funds that – sort of there will be a demand from the company side to reflect public valuations, if you decided to indeed revalue the company according to public valuations? Does that even make sense? However, the question, I guess, being that is there an implicit risk in revising valuations too quickly if the company has funding needs and has no intention to go public anytime soon?

Georgi Ganev: Hi, Ramil. No. I think at the end of the day, when a company is raising money, most investors are looking at the fundamentals – so, the operational performance of that company and, of course, what is the alternative of investment investing. It is difficult for Kinnevik, as one of the owners, to kind of control that next mark by not being aggressive in our valuations. As I think, it is – as you say, that correlation is not really there. However, there is, of course, another risk, in terms of our valuations.

However, maybe you want to elaborate further how we think about closing that gap, Samuel?

Samuel Sjöström: Sure. If we take a step back, what is going to drive the value in these two businesses is not sort of arbitrage on multiple, it is performance and it is organic growth. In terms of narrowing the gap, there is a time factor in there. There is a comparative factor in play here.

I mentioned that in both companies, we have had transactions just sort of three-ish months ago and that is a very heavy reference point when we assess our fair values. Narrowing this gap sort of depends on how the comps perform and how our businesses perform so it is tricky to give you an estimate.

Is there a risk? Yes, there is risk, considering the levels of multiples we are seeing in the market. I would argue we have less multiple risk on our balance sheet because as you have noticed this quarter, what is driving value in this quarter in the private portfolio, but also, to a certain extent, in the public portfolio is performance and not the expanding multiples.

Ramil Koria: All right. That is clear. Then, circling back to one of the first questions you got during the call on potential funding needs in Kolonial. Georgi, you mentioned that it could be for sort of laying the map, in terms of distribution capabilities, but also to potentially venture outside of Norway. Is that a discussion you are currently having in this funding round, so to say, or could it be that the venturing outside of Norway is something for the distant future, so to say?

Georgi Ganev: No, I do not want to go into the details of the company's strategy because it is for them to announce that first. Of course, however, we have looked at this case, as such, from both a geographical standpoint and growing more in Norway. As we have said many times, we are super impressed by the execution by the Management team and also how they delivered on this automation.

That, in itself, makes us excited to look at various alternatives. Of course, those alternatives will also require different type of funding needs. First, we have to decide that or the company needs to decide that together with the Board and investors. After that, we will determine how much funding is needed.

Ramil Koria: Understood. Then, a final one from my side on the Capital Markets Day. What do you want to convey during that, Georgi – and team, of course?

Georgi Ganev: That is the perfect teaser by saying that you need to visit that Capital Markets Day. Obviously, jokes aside, I think for us, it is a combination of a follow-up from what we have said last year and also to give you some kind of figures on that – mostly what you know, but also to go through it, from our perspective – invite a few companies to tell you about their stories and what they have experienced. Of course, however, I should lie if I say that I wish you define a good trigger as well to buy Kinnevik for the continued story. That is something that we hope we can deliver on.

Ramil Koria: It is very clear. Thank you so much, guys.

Stefan Wård: Thank you. One more question from me. I just want to get some clarification on the balance sheet strength with this net cash position of SEK 5.5 billion pro forma and the very strong liquidity on top of the net cash position. How will you steer that? It seems like you have covered a lot of investment activity, if we look back on the past few years with this position. Is it – do you have – can you give us some guidance or principles on how long you can stay with such a substantial net cash position before sort of distributing to shareholders or employing it in new investment? Thanks.

Erika Söderberg Johnson: Yes. Hi, Stefan, again. We are within our sort of target where we want to be, plus/minus. As we said earlier during the call, we continue to see a lot of interesting investment opportunities that we continue to evaluate. We have good faith in that we can put that money into good work.

Stefan Wård: Okay. Thank you.

Georgi Ganev: Thank you very much for listening and, especially in this call I would say, for many questions. Thank you very much.

As a reminder, we will report the results for the full year of 2020 on 4th February 2021. Again, we will come out with a separate invite regarding Capital Markets Day later this fall. Stay safe, everyone, and thank you very much. Bye.

[END OF TRANSCRIPT]