



K I N N E V I K

Q2 Report

Friday, 19th July 2019

Performance

Georgi Ganev

CEO, Kinnevik

Good morning everyone, and welcome to the presentation of Kinnevik's results for the second quarter of 2019. I'm 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.

Sold NAV development

Now please turn to page four where we have provided you a key summary of the key highlights for the quarter. It's been an eventful second quarter and we have focussed our efforts on continuing the shift in our portfolio towards a higher share of growth companies. These efforts included supporting high performance in a private portfolio, evaluating our Millicom stake and supporting the IPO Global Fashion Group.

Our net asset value increased by 6% to SEK89 billion in the quarter, primarily driven by continued strong share price development in Zalando and Tele2. The value of our unlisted assets increase SEK16.5 billion with the uplift stemming from revaluations of Babylon and Livongo, as well as from us investing additional capital in a few of our newer companies, including Kolonial, Pleo and Monese. The decline in the value of Global Fashion Group partly offset the increase this quarter.

We end the quarter with a net debt position of SEK5.7 billion corresponding roughly to a leverage of 6% of our portfolio value.

Solid quarter for all three of our large public assets

Please turn to page five for an overview of the performance of our large listed companies.

Zalando continued to capture market share in the first quarter of 2019, growing gross merchandise volume by 23% to €1.8 billion and revenues by 15% to €1.4 billion. GMV volume growth was higher than revenue growth due to a strong development of the part programme. Millicom continues to grow both organically as well through acquisitions or continuing the focus on its core Latin American markets and during the quarter Millicom completed the acquisition in Nicaragua as well as the divestment of the operation in Chad.

Tele2 has continued to streamline its market footprint

Tele2 reported yet another solid quarter and realised another SEK100 million of synergies, reaching the full year synergy target already after six months. And on page six, we highlight the strategic developments in the company.

In addition to progress in the Com Hem integration, Tele2 has continued to streamline its market footprint during 2019, completing exits in the Netherlands and Kazakhstan, as well as signing the sale of the Croatian business, closing later that year. And as a consequence of the divestments, Tele2's board has proposed an extraordinary dividend to shareholders of 6 SEK per share. And assuming that EGM improves, Kinnevik will receive SEK1.1 billion when paid out at the end of August.

Committed to continuing to strengthen the financial position

Now let us turn to page seven. Millicom has, over the past few years, transformed from a mobile-only customer proposition across a scattered market footprint into a customer-centric converged Latin America operator. We have actively supported the company on this journey and we are convinced that a company's well positioned for the future. That being said, we're firmly committed to continue and strengthen our financial position and to evolve our portfolio towards a high proportion of growth companies, and this includes maximising returns from a successful and long-standing investment in a company such as Millicom and we therefore in early June announced our intention to divest of shareholding in the company through a public offering of shares. However, during that process, it became clear that a two-step divestment could not be completed at a price that we found sufficiently attractive and as a result, we withdrew the offering but we continue to evaluate potential next steps in relation to our shareholding.

Continuing to focus on growth, strategic partnerships and product innovation

Now, let us turn to page eight for an overview of the performance of our private companies. Momentum is strong in our private companies and they continue to focus on growth, strategic partnerships and product information. And I will come back to Global Fashion Group on the next page. But I wanted first to highlight two of the companies on this page, Babylon and Betterment.

Babylon has continued to grow its user base and develop its platform. Currently, the company has some 3 million direct members and tens of millions more can access the services through partnerships such as with Prudential in Asia. To make the business more scalable, Babylon is also building an integrated AI platform, primarily focussed on triage and selectively expanded it to a diagnosis and predictive analysis. The ultimate goal is to go beyond managing sickness and start to predict to provide pre-emptive healthcare solutions.

Since the first investment, Betterment has grown from managing \$4 billion to close to 18 billion in June 2019. And during the second quarter, the component launched new functionality for electrically transferring securities held in a client's account at one brokerage or bank to another firm. This is yet another example of how Betterment continues to develop and expand its product portfolio, making sure it's better and increasingly seamless for its users.

GFG's July IPO

Now please turn to page nine for an update on GFG. Global Fashion Group started trading on the Frankfurt Stock Exchange at the beginning of July, presenting public market investors with a unique emerging market fashion ecommerce opportunity. And as part of the IPO, the company raised around €200 million, of which Kinnevik participated with 60 million. And we decided to support and participate in the IPO as we believed the company's made significant progress under its new management and we also want to ensure that the company's well funded to execute under its strategic plan. GFG made further progress in the first quarter, showing strong growth as the company continued to build its brand platform, now with over 10,000 brand partnerships. In addition, the active user base continues to grow as structural adoption of mobile and ecommerce continues across GFG's markets.

Additional capital investment

No turning to page ten for a look at a few of our investments in the quarter. Last year, we invested in ten new companies across our four sectors. Our ambition is to support the new companies and over time increase our stakes as they grow and perform. And in line with this strategy, we have invested further capital in Pleo and Monese in the second quarter, as well as Kolonial, which I also spoke about on our Q1 call.

Pleo is growing its business across UK, Denmark, Germany and Sweden, attracting strong interest from customers as well from potential investors. The company has truly found an attractive niche market and has a highly appreciated customer proposition, paving the way for a strong growth. Pleo will use the proceeds for its latest funding round to triple the size of its team and to accelerate its product development as it plans to add more services to its offering for SMEs in Europe. And Monese, our UK-based new bank providing banking services to the underbanked is continuing to grow its user base rapidly and in line with plan. The company recently launched a collaboration with PayPal that expands customer's access to financial tools in a modern economy.

With that said, I would like to hand over to Joakim for an update on our financial position.

Financial Position

Joakim Andersson

CFO, Kinnevik

Positive NAV development

Thank you, Georgi.

On slide 12, we present the key contributors to this quarter's NAV development. In the second quarter, our NAV increased by 6% to SEK89 billion and NAV per share increased to 323 in the second quarter. The main drivers of the uplift were continued strong share price development in both Zalando and Tele2. After yesterday, our NAV had increased slightly to 89.4 billion or 324 per share. The value of our unlisted portfolio increased to SEK16.5 billion. This increase was driven by the investments in GFG, Kolonial, Pleo and Monese, as well as the revaluation of our healthcare companies Livongo and Babylon, in part offset by the negative value development in GFG as we valued our ownership stake in line with the IPO price.

This quarter, we have updated our valuation methodology to ensure compliance with both IFRS 13 and the updated [inaudible] valuation guidelines. This means that the collective assessment, if made, to establish the valuation methods and point of reference that are most suitable to triangulate the fair value of each individual asset. While a valuation in a recent transaction is not applied as a valuation method as such, it typically provides an important point of reference and basis for the valuation for the asset in question.

As you may have noticed, we have two fairly significant valuation uplifts in our healthcare companies Livongo and Babylon. The fair value of our shareholding in Livongo amounts to SEK1.8 billion. Evaluation is based on forward-looking multiples of a peer group of healthcare companies and corresponds to the low end of the price range in Livongo's pending IPO. The fair value of Kinnevik's shareholding and other interest in Babylon amounts to SEK1.2 billion

and it's also based on forward-looking revenue multiples for the peer group of healthcare companies. Since we invested first in Babylon, the company has made significant improvements to its platforms and started drawing out international partnerships, two factors that underpin the revaluation of the company.

Maintained strong balance sheet in line with financial targets

Please turn to page 13 for an overview of our balance sheet. As you can see on this page, net investment amounted to SEK1.3 billion in the quarter, which meant that we ended the quarter with a net debt position of 5.7 billion, corresponding to a leverage of 6% of portfolio value.

As Georgi mentioned earlier, Tele2 has proposed an extraordinary dividend drawing from the proceeds from the transactions in Kazakhstan and the Netherlands, which will bring us SEK1.1 billion in the end of August. With these remarks, I would now like to hand over to Georgi to sum up.

Key Priorities

Georgi Ganev

CEO, Kinnevik

Diversity and inclusion framework

Thank you, Joakim. During the quarter, we adopted a framework to diversity inclusion at Kinnevik and our portfolio companies. We have, among other things, ear-marked 10% of our annual investment budget for female founded companies with clear KPIs and a strong commitment for both our board and management team, I'm convinced that the initiative will ensure we build stronger and better companies.

A busy quarter delivering on key priorities

As I started out saying, the second quarter was eventful and activity continues to be high. We see a positive momentum across all of our assets and with exciting development in a number of our private companies, I feel that we have a very strong foundation for future value creation. We're now ready to answer your questions, so operator, please open up for Q&A.

Q&A

Thank you. Ladies and gentlemen, if you do have a question for the speakers, please press 01 on your telephone keypad now. If you find your question has been answered before it's your turn to speak, please press 02 to cancel.

We now have our first question from Lena Österberg from Carnegie. Please go ahead, your line is now open.

Lena Österberg (Carnegie): Good morning. One question here on your thoughts of the strength on your balance. First of all, series on: is it new investments you are looking to raise cash for or do you see continued need to invest in your current holdings? And also, if I may, why is it so specifically that it's Millicom that you want to divest and not Zalando? You have

two big liquid companies, one is providing dividends and the other is not. So why have you chosen Millicom and not Zalando?

Georgi Ganev: Thank you, Lena. I'll answer your questions. First of all, when it comes to a new investment versus former investments, there will be a combination in both. We are definitely looking for new investment opportunities. That is to find new companies in our growth portfolio over the coming years. And we also have done a fair amount of new investments during last year. And as those companies grow and perform according to our expectations, we will also be ready to deploy more capital in those investments. As we said before, we have an ambition to reach an ownership to become the, I would say, largest minority shareholder of some about 20-25% and that would also be our ambition in the companies we believe should stay in our portfolio for a long time.

When it comes to divesting, as we announced in June, we believe that Millicom is, say, safe and stable company in many ways and now, if we look at the company today compared to just a few days ago, it's a focussed Latin American market operations with nine countries with FMC mobile fixed conversion capabilities. And therefore, it's a good way to hand over the baton for a different ownership on the next journey. That's our intention. We also see that it doesn't really fit as well as other assets in our portfolio since we said that we would like to focus mainly on Europe and US and a specific focus around the Nordics, and also look for growth opportunities. And as Millicom is a mature stable asset, not really a growth asset in that aspect compared to the Zalando or Global Fashion Group and it's also set outside our geographic focus. We think that it's the right choice to focus on right now.

Lena Österberg: And can I just maybe follow up given the dividend levels you have and the dividends you received after Millicom has been divested, say that you divest the whole company, that's a relatively close match, but given that you will continue to need money for new investments and you don't have that much large assets that you can divest to fund, wouldn't it make more sense to keep something that provides you with a stable dividend flow?

Georgi Ganev: But I think that what we announced also in our press release in June was that we will adjust the dividend going forward when we divest a dividend company like Millicom.

Lena Österberg: Okay.

Georgi Ganev: So we wouldn't have a gap losing that dividend. But you could also argue, as you say, that those – that cash could be used to fund our investment or the operations but that has not really been the intention basically in the past either or now. So we are looking for a funding – we have a funding strategy where we are supposed to fund ourselves with continuous divestments over time and not through the dividend coming in through a company like Millicom.

Lena Österberg: Okay, thank you.

Operator: Our next question comes from the line of Johan Sjoberg from Danske. Please go ahead, your line is now open.

Johan Sjoberg (Danske Bank): Thank you. I have one question. I mean, you – you are keeping up quite a high investment activity which we appreciate. I just want to check with you how you see the investment market right now in terms of finding new objects and also

have you seen any change to that recently in terms of prices or new updates [inaudible] investment organisation?

Georgi Ganev: Thank you for that question. I would say that as we said before, it's difficult to say anything about the future but I think we can all agree that we are rather on the top of this cycle than on the bottom of this cycle. So of course, that drives higher multiple for our valuation. Therefore, we focus only on companies where we see a long term growth opportunities and stability, such as our healthcare sector, for example. With that said, since we are a long-term investor that will invest also in the bottom of the cycles and top of the cycles and continuously we feel that we are less exposed to these variations that perhaps other companies, other investment companies. But I mean, I can repeat what I said last quarter and the quarter before that. We're, of course, cautious to be part of any bidding context – contest and hives[?] at this moment because the valuations are rather higher than lower at this time of the cycles.

Johan Sjoberg: Yeah, totally understand that. Just a follow up on that one. I mean, when you're looking at – at your investment page here, I mean, it's been quite high in the first half and obviously also GFG – you invested in GFG now in the listing[?]. How do you see that – I mean, if you take the balance sheet out of not being – if you don't focus on the balance sheet here, but would you say that the investment pace in the second half will be slower than in the first half or how would you say your investment cash flow is going forward?

Georgi Ganev: We announced in the beginning of the year our intention was to do fewer but larger investment throughout 2019 compared to 2018, and on that kind of guidance we have definitely delivered on. So we did an investment in March time of roughly SEK900 million and we made some larger follow on investments and we announced earlier this week our intention then to buy conditional to the IPO of Livongo the stake from an existing shareholder for a significant amount. So those are in line with what we have said.

But of course, also using our balance sheet and our leverage as a rubber band, as Joakim used to say, we are also cautious that we spend our money carefully and therefore the activity needs to be planned accordingly.

Johan Sjoberg: Okay, good. Thanks a lot.

Operator: Our next question comes from the line of Derek Laliberte from ABG. Please go ahead, your line is now open.

Derek Laliberte (ABG): Yes, good morning. I had a question on one of your bigger unlisted assets, Quikr. Was wondering what's driving the valuation change there on the negative side, whether it's mainly pure multiples or something's deteriorate from an operational perspective? Thank you.

Joakim Andersson: Hi, yes, it's Joakim. I'll pick that up. No, it's a minor change and we see a great development in Quikr. They have good momentum in their different verticals they operate in. So it's nothing material, it's just a slight shift this quarter.

Derek Laliberte: Okay. Thanks.

Operator: Our next question comes from the line of Joachim Gunell from DNB Markets. Please go ahead, your line is now open.

Joachim Gunell (DNB Markets): Thank you. Good morning. So just a follow up question, perhaps to you Joakim on your decision to provide updated valuation methods for the majority of the holdings looking at forward-looking multiples instead of trading ones. And more specifically on a holding like Betterment where you're still – the methodology is unchanged where you just provided a cash flow analysis.

Joakim Andersson: Yeah, so that changed, as I mentioned before and as we write in the report, it's mainly driven by the updated guidelines in the private equity guidelines for valuations of unlisted holdings. So the latest transaction barriers we typically used before, it's not a kind of real method any longer. So we are updating those methods to those companies and move over to kind of more of a dynamic approach to the valuations and using multiples for these [inaudible].

Having said, though, we will continue to use the transaction values as kind of strong guiding stars for where we think these are valuates[?] of the companies. So that's kind of the drivers in the background to why we changed methodology for quite a few of our companies.

Joachim Gunell: Understood. And one more question for me on Betterment. Could you please provide perhaps your view on the competitive landscape amongst US independent robo-advisors because from where – on my calculations, it seems like Betterment is gaining quite significant market share amongst the independent ones in terms of that – from the management, that is.

Georgi Ganev: That's correct, Joakim. So we see that Betterment is by far the strongest independent robo-advisor in the market, in US, and therefore also in the world. Having said that, the market is vast and looking at the incumbents, like [inaudible] and the others, of course, its size is relatively small. But it's a pure play game for betterment where they start with a new modern platform and now expanding its functionality, we believe that they have a very strong position in this space. And they are, as you say, the leading ones in terms of asset under management.

Joachim Gunell: Thank you very much. Have a great summer.

Joakim Andersson: Thank you.

Georgi Ganev: Thank you. You too.

Operator: As a reminder, ladies and gentlemen, if you do have a question for the speakers, that's 01 on your telephone keypad now or 02 to cancel.

Georgi Ganev: Okay.

Operator: There are no further questions at this time. Please go ahead speakers.

Georgi Ganev: So thank you everyone for listening today. I look forward to meeting many of you here at Stockholm on 19th September at a capital markets day to elaborate further on the strategy and there you will also meet several of the founders and leaders of our companies that form part of our future growth story. And until then, I hope you'll enjoy, hopefully, a very nice and warm summer. Thank you very much. Bye-bye.

[END OF TRANSCRIPT]