Q1 Report

Friday, 17th April 2020

Opening Remarks

Georgi Ganev

Chief Executive Officer, Kinnevik

Good morning, everyone, and welcome to the presentation of Kinnevik's results for the first quarter 2020. I am Georgi Ganev, Kinnevik's CEO; and with me today is our Director of Corporate Communications, Torun Litzén; and our Head of Strategy, Samuel Sjöström. I am also delighted to introduce to you our new CFO, Erika Söderberg Johnson. Erika, I know that you would like to take this opportunity to introduce yourself to the Kinnevik investor community.

New CFO Introduction

Erika Söderberg Johnson

Chief Financial Officer, Kinnevik

Yes. Thank you. It is great to be on board. Today is my eighth day at work, working mostly remotely from home so far. So I am very much looking forward to meeting everyone in real life and that goes for the Kinnevik team as well as all of you and other external stakeholders of Kinnevik.

Just to give you a short summary of my background, I spent my first ten years after graduating from the Stockholm School of Economics in 1993 working in investment banking with IPOs, private placements and M&A transactions. The last 18 years, I have had very broad CFO roles in four different companies within the life science and med tech industries, spanning from early-stage entrepreneurial private equity held companies to listed fast-growing fully-fledged companies with global operations. In parallel, I have, during the last 14 years, had external board assignments earlier in Sectra and MedCap, currently in Qliro Group and in Saab.

So I am very excited to join the Kinnevik team at this very inspiring phase of implementing the strategy that was communicated at the Capital Markets Day in September last year. I am looking forward to being part of the journey going forward and hope to be able to meet with you soon.

Q1 2020

Georgi Ganev

Chief Executive Officer

Effects of COVID-19

Thank you, Erika. We will be hearing a lot more from you going forward. However, for today's presentation, we will rely most on Samuel and Torun.

Now before we go through our presentation of the first quarter results, let me first say that these are extraordinary circumstances that are clearly affecting us all, personally and professionally. Our first priority at Kinnevik, as the crisis started, was to ensure the safety and well-being of our employees at Kinnevik and in all our portfolio companies. The current situation is posing a number of challenges and issues, which we are working hard to address in an extremely fast-moving environment. That said, my view is that Kinnevik is standing strong and that we are in a good position to come out even stronger on the other side.

Even before the spread of the coronavirus, we had contingency plans in place. And overall, our portfolio of digitally enabled business models is showing relative resiliency. We are working very closely with our founders and management teams to support them in making short-term adjustments and implement cost savings to safeguard their financial position as well as making sure that they have the time and resources to capture the longer-term opportunities of this crisis.

We all know that the true proportions and effects of this pandemic are yet unknown and we have a long way to go before we know the full outcome. I must say, however, that I am very impressed so far by our company's ability and agility in facing this new reality.

Now let's get to the presentation. And as always, we are happy to answer any questions that you may have at the end.

Q1 Key Highlights

Please now turn to page three, where we have provided you with a summary of the key highlights for the quarter. Our net asset value has decreased during the quarter and amounts to SEK 64.9 billion. This is a decrease of SEK 8.4 billion or 11% compared to yearend and is driven primarily by a sharp correction in our online consumption companies – most notably, Zalando, which accounts for a large part of our portfolio and saw a 20% share price drop negatively affecting our NAV by SEK 6.2 billion. However, Tele2 has proven rather resilient and saw only a 2% share price decline during the quarter. Similarly, our third largest holding, the digital healthcare company, Livongo, was up 21% during the quarter. Notably per yesterday, our NAV was up 12% and closed at SEK 72.7 billion, which is largely in line with the yearend.

Tele2

Looking at our listed companies, Tele2 plays an important role in providing excellent communication services at a time of social distancing and with many people working from home. The company is seeing an increase in fixed and mobile data and is not experiencing any capacity issues in upholding this critical infrastructure. However, of course, Tele2 is also affected by this crisis in the way they work and their customers are also affected. Tele2 would report its first quarter results on 21st April.

Zalando

Zalando announced yesterday that the company expects its first quarter revenue and gross merchandise value to be significantly below previous year and that EBIT is also negatively impacted resulting in an exceptional write-down of inventories. The company has launched a savings programme to counter the negative impact for the coronavirus crisis. Planned savings of €250 million in marketing and overhead as well as reduced capital expenditure of around €100 million will ensure continued financial health and also it will enable the acceleration of the company's strategic growth initiatives. Our conviction in Zalando's long-term prospects remains firm. And we also fully support management's thesis that investments made over the last decade have placed Zalando in a strong position from which it will emerge from this crisis as a winner. Zalando will report its full first quarter results on 7th May.

Unlisted Portfolio

Looking at the unlisted portfolio, we have taken down the valuations by about SEK 900 million or 7% during the quarter. This is primarily an effect of the corona crisis on business outlets and peer multiples in part mitigated by currency movements and downside protection mechanism that we have in some of our private companies. I will go into some more details on how our companies have responded to the crisis later on in this presentation and Samuel will also take you through our valuations of the unlisted portfolio.

Financial Position

Importantly, our financial position remains strong and we ended the first quarter with SEK 3.8 billion in cash and money market investments. Our net debt of 2.2% of portfolio value is well within our financial target of below 10%. With the sell-down in Zalando last year, our decision to cease paying ordinary dividends and the SEK 1.5 billion in new bonds we issued in February this year, we are well funded and in a good position to execute on our strategy. Of course, we expect that this ongoing crisis will result in an elevated capital need in certain companies in our portfolio.

Investment Management

On the investment management side, we invested SEK 150 million in MatHem and alongside a Swedish institutional investor, AMF, to support the company's growth agenda. We also invested SEL 106 million into Budbee as we see clear long-term potential in the last-mile logistics sector.

During the quarter, we also invested SEK 74 million in Town Hall Ventures' second fund. Town Hall Ventures is an investment fund with the aim of transforming the US healthcare system to better serve its consumers, an investment thesis which resonates very well with Kinnevik's own healthcare strategy. The investment was made in part to deepen the strategic ties with Town Hall Ventures, which is headed up by Andy Slavitt, who has been an adviser of Kinnevik. He has been instrumental in accelerating our healthcare portfolio and we have previously co-invested together with Town Hall Ventures and VillageMD.

Kinnevik Team

Moving on to the Kinnevik team. As you know, we welcomed Erika to the team in the beginning of April. We are also very excited to have Anna Stenberg joining us as Chief People and Platform Officer in May.

Coronavirus Effects

On the next page is a summary overview of how the spread of the coronavirus is affecting Kinnevik and our portfolio. During times of extraordinary uncertainty and extreme market volatility, Kinnevik has the benefit of being able to play the long game. Growth investing is indeed a long-term activity. And accordingly, in spite of the challenges we face, the capital allocation framework presented to you in September last year remains unchanged. We do believe, however, that the spread of the coronavirus means that we will commit slightly more capital or commit earlier than anticipated to our existing companies. We also believe that opportunities for new investments and potential divestments may become fewer. We therefore believe that 2020 will be a year when we focus our capital to our existing portfolio to a higher degree than in other years over a five-year plan.

And as I mentioned earlier, our financial position is strong and we have the firepower to execute our strategy while supporting our companies as needed through this crisis.

Demand

Now some of our businesses are facing or will face softening demand, supply chain disruptions and an environment which is less favourable to raise capital for investing into future growth. On the other hand, some of our companies are seeing an unprecedented surge in demand forcing their teams to work hard to supply their customers with the products and services they need.

Travel and healthcare providers are an example of this. Demand for international travel has virtually dropped to zero at an unprecedented speed. By contrast, the digital healthcare company, Livongo, issued a statement in the beginning of April saying that its first quarter revenue is expected to come in above previous guidance driven by the strong demand.

In downturns, focus on cash and runway is increasingly important. We are ready, willing and we are able to support our businesses in this time of crisis but we also remain prudent in relation to the measures we request from them and the capital we provide them with. However, a crisis like this also creates opportunities for our businesses to gain market shares and come out of this crisis stronger than it came in and with a strong outlook for the long-term value creation.

We have dedicated the next few pages in this presentation towards giving you a better understanding of how the current situation is affecting our portfolio and also how our companies are responding to these extraordinary circumstances. So let us start with it on page five.

Online Groceries

The Nordic online grocery market is experiencing an extraordinary surge in demand. Both MatHem and Kolonial.no have become vital parts of society, supplying families and individuals with food to their doorstep at a time when many cannot or do not want to leave their homes. In Norway, Kolonial.no’s customer intake has been ten times that of normal levels and the recent developments have fast-forwarded the company’s growth plan significantly. The increase in demand has been a true litmus test for the company’s ability to scale its operational model. Even with an exceptionally strong sales growth, warehouse productivity has been maintained and the time to profitability has been drastically shortened. The trends we see at Kolonial.no clearly shows that as volume increases and efficiency remains high, the business model is cash flow generating already at a relatively small scale.

Similarly, customer intake is at record highs at MatHem and the company is operating at maximum capacity to satisfy the increased demand. With a SEK 500 million funding round closed earlier this year, the company is well capitalised and plans to open a new environmentally certified warehouse in 2021. This warehouse is expected to significantly increase both capacity and efficiency.

Digital Healthcare

Now please turn to page six for an overview of our digital health companies. In a world where health services for those that are not critically ill need to be made available digitally, the business models of our digital health companies are particularly effective. Many traditional institutions have limited capacity to deliver virtual care, which becomes especially problematic as the number of people seeking care grows exponentially while the healthcare workers put their own health at risk to provide the treatment.

Livongo solution is particularly valuable for people with chronic conditions coping with the current coronavirus crisis. Livongo responded quickly by developing and rolling out a targeted COVID-19 response effort to keep its members healthy, informed and supported through the duration of the pandemic. And as previously mentioned, the company announced that its first quarter revenue is expected to come in above previous guidance driven by the strong demand.

Similarly, Babylon has developed a product leveraging its AI capabilities to triage the diagnosis of COVID-19. The product has attracted strong interest and is promoting Babylon's ongoing international expansion.

Travel Companies

Turning now to page seven for an overview of our travel companies. The travel industry is in the eye of the coronavirus storm. While both TravelPerk and Omio showed strong growth in line with expectations during January and February, they experienced steep declines as travel restrictions were imposed globally throughout March. However, even though the timing and the shape of the recovery within travel sector remains very uncertain, such periods also bring opportunities. For both companies, this represents a time when the teams can accelerate product development to better serve their users in the future and also manage operating expenses to build leaner and more efficient organisation.

At TravelPerk, this has also been an opportunity to expand its corporate client base and March was actually one of the best months ever for new customer acquisitions. While these clients may not transact immediately, past trends suggest high stickiness and share wallet once travel activity picks up again, which we believe it ultimately will.

Financial Services

On page eight is an overview of the financial services that we have in our portfolio. Our financial services companies are affected by lower economic activity as transaction volumes fall and financial markets become highly volatile. Assets under management at Betterment was down around $3 billion in the first quarter, in line with the S&P 500 and totalled $18.4 billion at the end of March. However, the company has retained its customer base and continued to see strong traction in its multiproduct strategy with a steady inflow of deposits.

With that said, I would now like to hand over to Samuel for a deep dive into the valuation of our unlisted portfolio and our financial position, starting on page nine. Take it away, Samuel.

Samuel Sjöström

Head of Strategy, Kinnevik

Net Asset Value Development

Thank you, Georgi. So on page nine, we outlined the development of our net asset value during this quarter. Now in Q1, due to the current shape of the ongoing coronavirus crisis, we believe that our portfolio can largely be divided into two categories of companies. In the first category, you find our more cyclical businesses, which during the quarter generally saw softening demand and contracting multiples on public equity markets. Here you find fashion e-commerce, online travel solutions and financial services. Zalando was down 20% in Q1, GSG was down from 50%, and we wrote down the value of our financial services businesses by 13% on aggregate. And I will touch on our unlisted investments in more detail shortly.

In the second category, you find our less cyclical businesses as well as individual companies that have seen increased demand for their services as COVID-19 is affecting how we conduct our day-to-day lives. Clearly, while in no way unaffected, no one is, Tele2 belongs in this category. But so do our healthcare businesses, which are all working very hard to help the populations they cover cope with the ongoing pandemic.

Here, Livongo was up 21% in the quarter, and we have written up the fair value of VillageMD by 20% on the back of strong performance and developments in the peer group that we benchmarked the company against.

As Georgi pointed out, our online food businesses as well as Budbee are seeing a significantly elevated demand over the last few weeks. And as we state in today's report, we believe economic downturns tend to accelerate the shift in consumer behaviour and it is this shift that we are investing in. However, in relation to our fair value assessment, we are cautious not to extrapolate recent over performance until we have a more fact-based view of the current crisis effect on customer behaviour over the longer term. Accordingly, our assessed valuations were effectively flat when adjusting for currencies but slightly down due to the Norwegian krona weakening materially against the Swedish one during this quarter.

All in all, our NAV amounted to SEK 64.9 billion at March end. That is SEK 235 per share and represents a first quarter decline of 11%. Now this can be compared to the NASDAQ, which was down 15%, the OMXS30 down some 16% and our own share price, which was down 28% during Q1.

However, as you all are very well aware of, markets are very volatile and uncertain at the moment. And as Georgi mentioned, if we adjust our net asset value with yesterday's closing prices of our listed investees, it amounted to SEK 72.7 billion, so up almost SEK 8 billion from end of March. And clearly, had we made our assessment of the value of our unlisted portfolio per yesterday, this value would have been something different and would likely have benefited from the slight rebound that we've seen in equity markets during April.

Valuation of Unlisted Portfolio

If you please turn to page ten, I would like to provide some additional nuances to the assessed fair values of our investments in private businesses per quarter end. During the first quarter, we are writing down our unlisted portfolio by SEK 0.9 billion or around 7%. Now, I suppose the kneejerk reaction of some of you may be that this seems to be a bit on the low side. And compared to broader public equity markets, it is but for three very good reasons.

Firstly, as I pointed out on the previous page, a large chunk of our capital is invested in businesses that have fared relatively well through the coronavirus crisis thus far. Around half of our unlisted portfolio by value is within healthcare, online food and last-mile logistics – sectors within which we see continued strong performance or even over performance and fairly stable trading multiples over the peer groups of listed companies that we benchmark our businesses against.

Secondly, as is rather customary in VC-funded businesses, certain companies adopt financing structures that entail preferential rights, such as liquidation preferences. In general terms, these rights can have the effect that as long as a business is sold at a valuation in excess of the capital it has raised, we recoup our investment. Having said that, while an unchanged fair value may seem and in part is advantageous considering the market we are currently in, this does not remove from the fact that our assessed value of the company as such may have been revised downwards in a material way. This is relevant this quarter for Omio, which is a company, we believe from a valuation perspective, should be hurting in line with listed online travel agencies.

Now it may be some time before our assessed valuation of the company as a whole bounces back and the fair value of our investment returns to growth, unless the underlying market – such as the travel industry – stabilises and recovers back to pre-crisis levels.

Thirdly, as is typical in this type of market, the Swedish krona has depreciated against the US dollar and euro. The dollar was up by 6% in the quarter and the euro was up 3%. Now, this provides a cushion for our companies that operate in or are denominated in these currencies.

On the flip side, our assessed valuation of our Kolonial investment was flat in Norwegian kroner, but again down materially in Swedish krona due to these currency changes.

Lastly, a precondition this quarter as it relates to our assessment of the fair values of our unlisted assets is that it has been a historically volatile and uncertain quarter. As always, we base our valuations on everything we know and believe per today and peer multiples in currencies per quarter end. But as the situation and our and everyone else's understanding of its duration and magnitude develops, so will our fair value assessment.

Now adjusting for downside protection rights and currency changes in the quarter, upwards and downwards, the write-down of our unlisted portfolio would have been closer to that of broader equity indices. But still by magnitude, that would be indicative of our sector balance's underlying relative strength to that of your overall stock market.

So in summary, our unlisted portfolio has proven to be relatively resilient to the ongoing crisis in its current shape and form. A number of our investments carry downside protection, a limited few which are in play, and we have benefited from some dollar and euro tailwinds in the quarter. And this all then sums up to what is a relatively small write-down compared to your broader market.

Now I am happy to try and answer any questions you may have on our valuations this quarter when we move to Q&A but I would like to take the time to highlight the elaborations we provide on pages 23 through 25 in this quarter's release.

We've tried to provide you with more colour on how we reach our assessments and hope that these, in combination with our attempts at overall enhancements of our disclosure of our industry's performance is helpful to you in analysing us and our portfolio. And as always, this is an area where we will be looking to improve further as we continue to balance our portfolio towards a higher share of these unlisted growth companies over the coming years.

Financial Position

Moving on then to our financial position on page 11. We ended the quarter with a net debt position of SEK 1.5 billion, corresponding to a leverage ratio of 2.2% of our portfolio value. This is up 0.9 percentage points from 1.3% at end of 2019 but down 2.3 percentage points from 4.5% 12 months ago. Our SEK 1.5 billion net debt position is largely made up of some SEK 3.8 billion in cash and short-term investments and SEK 5.3 billion in short- and long-term debt.

In February, we issued a SEK 1.5 billion five-year bond at plus 80 bps in connection with which we repurchased roughly SEK 0.6 billion of our bond maturing in May this year. Accordingly, we have SEK 1.8 billion in bonds maturing during 2020 and have the financial strength to await further certainty in the outlook of our investees, our investment budget and the market before deciding on whether to refinance parts of these maturities during the year.

Tele2's proposed dividend means that Kinnevik would receive SEK 1 billion in ordinary dividends and SEK 0.7 billion in extra dividends. Per today, SEK 1.7 billion is slightly above our current forecast in terms of capital injections into our existing companies through 2020.

Now this investment forecast also reflects our current assessment of an elevated funding need due to and throughout the current shape of the ongoing COVID-19 crisis. However, as you all understand, the situation can deteriorate in excess of our and our company's expectations and across different parameters of our capital allocation budget.

So in hindsight and as Georgi pointed out earlier, we are possibly even more convinced of the decisions we took in September last year in relation to Zalando and our dividend policy, as these placed us in the strong financial position we are now facing this ongoing crisis from.

Now the challenges that COVID-19 poses does not mean that we are not looking for new businesses or opportunities to accrete ownership in the winners of our current portfolio by acquiring secondary shares.

On the contrary, however, current uncertainties may very well entail that investments are funded by tapping into our SEK 3.8 billion cash position to a further extent than originally intended. Having said that, we will still be looking to release capital from within our existing portfolio as and when attractive opportunities arise.

In summary, what we told you last quarter still holds. We have a financial position from which we can execute on our five-year plan. And based on our current outlook, this plan is not materially affected by what is unfolding now.

Considering the uncertain market environment, our current view is that it is fair to expect 2020 to be a year during which we focus our capital more in our existing companies relative to other years of our five-year plan and that our net debt position may increase slightly more than the case would have been under more normal circumstances.

With that, I would like to hand back over to Georgi for his closing remarks.

Closing Remarks

Georgi Ganev

Chief Executive Officer

Thank you, Samuel. I would also like to take the opportunity to thank you for working extremely hard during the last quarter before we had the pleasure to welcome Erika to Kinnevik. Thank you very much. Your time and effort has been invaluable for me, for the full team and for the company.

At times like these, it is as important to be agile and flexible in meeting this new reality as it is to make sure we focus on delivering the long-term strategy we set out last year. We have three clear priorities going forward: continue to evolve the portfolio towards a higher proportion of growth companies in our target sectors and markets; strengthen our portfolio balance across our focus sectors, geographies and stages; and to reallocate capital more dynamically and exit a number of businesses at attractive terms as our relatively young portfolio matures. Finally, I am also very thankful for the strong support we see from our shareholders in these turbulent times.

We have ended the presentation and we are now ready to answer your questions. So operator, please open up for Q&A.

Q&A

Joachim Gunell (DNB Markets): Thank you for that. To start with, really appreciate the increased level of transparency in your reporting. So thank you for that. You mentioned here that funding through existing companies should be somewhat similar to the dividends received from Tele2. You will either fund additional investments from your balance sheet or by selling down an existing holdings. So can you elaborate on the two latter options, especially if you allude to all parts of the portfolio or just the listed?

Georgi Ganev: Sure. Thank you. So we are not going to state particular companies here. But as we approach reallocating capital within our portfolio, it does not matter if you are listed or unlisted. And again, I would like to reiterate that we have a balance sheet that is very strong. We are well under our long-term leverage target. So we believe that funding can come from a number of different sources.

Joachim Gunell: All right. So in terms of driving active ownership and strategic priorities for your VC portfolio, I guess, I mean, you also alluded to that you will emphasise more on sustainable growth, longer cash runway, etc. But are there any additional focus points on priorities that you see for say each of your target sectors?

Georgi Ganev: Yeah. I think I would like to reiterate what we said during the presentation that this is a time where some of our companies really need to take drastic cost measures in order to survive this crisis. But it is also an opportunity to sharpen the strategy and the efficiency in the organisation. So that is an agenda that we drive, I would say, towards every company in our portfolio.

And as also said in the presentation, I am impressed by the fighting spirit, the agility and the actions that our founders and CEOs and management teams in these companies have taken during the quarter. I think this will just make sure that we, as I said, come out stronger after this crisis.

Apart from that, I mean we see a surge in demand in several areas and we see opportunities that could potentially be M&A opportunities within our company portfolios. And we need to dedicate time also during this crisis to look at those opportunities. If I should kind of have a balance, how much we spend on the say, survive versus strive, I would say it is still more about taking these conservative measures to make sure that the companies actually will have enough runway to survive this crisis. But we also spend, let us say, 30% of our time looking at opportunities both for Kinnevik as new investments but also definitely for opportunities for our companies within the portfolio.

Joachim Gunell: That is clear, Georgi. And the final question for me, digital health, I mean, the value proposition obviously becomes increasingly clear owing to the pandemic situation. But are there any positive surprises here that you would like to highlight that you have not already spoken about and also perhaps is there anything to say about Babylon's US expansion plans here in 2020 since the outbreak began?

Georgi Ganev: Yes. I can name a few, some of them we touched briefly upon but I can elaborate a bit. If we take healthcare sector first and I can say something about the Nordic online grocery strategy and investment that we have made, we look first at the sector of virtual care. This crisis clearly shows that it is not only a short-term demand but also an increased awareness from authorities, from members of Livongo services and the customers that use Babylon that actually see that this is a very efficient and necessary tool in these times. So I think that general awareness will only increase.

During the quarter, we have seen, of course, some challenges in the rollout of Babylon's large contracts in the US. We have to remember that these are large organisations like Centene that owns a bunch of hospitals, insurance companies and so forth. And they have been, I mean, quite short-term focused at all of us during these times.

Having said so, Babylon and Livongo have responded quickly to the COVID crisis. And they have actually upgraded and changed their services so they can be used in a broader sense during this COVID-19 crisis. As we say, help patients, help consumers to actually get information and to be able to actually remotely take care of their chronic illnesses and their noncritical illnesses.

I would also like to say that looking at Livongo that had a quite tough journey, as we know, in the public markets after the IPO is now really highly valued by investors because they realise that not only is it a strong platform, it is also very resilient in times like this. So of course, having blended in price for Kinnevik at $12, we are happy to see that, that investment has generated great return as we speak.

If I then just go shortly into the online grocery space, I think the most important thing is not to talk about this surge in demand that is happening now. I think it is clear to everyone that when societies are, I mean, either completely locked down or almost locked down, people tend to buy online if they can. What is really interesting is to look at some data points that we have when it comes to efficiency.

When we made those investments in MatHem and Kolonial, we had a thesis that said that with enough volume and with enough high efficiency in the company, we can make a profitable business and a cash flow generating business. That thesis is now, I would say, really shown or we have had underlined that thesis, and we have got clear facts and data points that show that we were right when we took that bet. There is a long way to go establishing this pan-Nordic online grocery business that we are dreaming of. But at least we are much more comfortable at this time that we have made the right decision.

Joachim Gunell: Thank you very much.

Ramil Koria (SEB): Thank you, operator. A few questions, if I may. So starting off on the investment side. You previously said that you expect to invest less in 2020 versus 2019 and the wording has been, again, invest slightly less. Is that still relevant weighing everything you said today together?

Georgi Ganev: Yes, it very much is.

Ramil Koria: Okay. And then looking on the unlisted side, I mean, is it possible to give any flavour on which holdings that have imminent refinancing needs? And perhaps as a direct follow up to that, I mean, how far have you really gone in your projections when you say that the incoming dividend from Tele2 will cover refinancing needs? I mean, how do you model things given the huge uncertainty surrounding everything today?

Georgi Ganev: A relevant question, Ramil. We have been elaborating on various scenarios. And as we said also, we did continue the plans already last fall when we were thinking what if we will face an economic downturn. Of course, no one knew that it is going to be a virus like this. But still, we had different scenarios.

And what we see that we are not that dependent on the specific dividend as such or anything else in our portfolio over the kind of three- to five-year plan. We know that we have a capital framework. We have a resilient portfolio and we will be able to deploy the capital that we actually plan for.

What we will say, however, that in these times, during 2020, when we still have so much uncertainty in the market and how long this crisis will last, we will be a bit more prudent, obviously. And we will hold back on some of the new investments, unless we see some really dislocated pricing and opportunities or businesses that we actually know is having a good traction so less risk, obviously. And that is what we say.

And should there be so that we have companies that are facing short-term funding need, we will do two things. First, we will always evaluate that business case in itself. So it is not given that we will be a supporter of every company in our portfolio if we do not believe that there is long-term value creation opportunities. That is the first thing. It will be a case-by-case exercise.

Secondly, we will also make sure that we drive an agenda towards all these companies so they realise that if these turbulent time continues, they need to be used that there will be less capital available and that capital needs to last longer. So it is a lot of responsibility all from the portfolio side, not only at Kinnevik.

Therefore, we are comfortable with our projections that even though we would invest slightly earlier in the existing companies, we have put enough demand from them regarding capital allocation and cost efficiency that that capital will last longer than we initially planned for in the old plans over this next five-year period. So having said that, that was a long answer to say that we are comfortable that we can stick to our capital allocation framework and we, over this five-year period, can invest in enough new companies.

Ramil Koria: Thank you, Georgi. Just a follow-up on that. I mean, you are implicitly saying that the imminent refinancing needs in the companies that you are willing to actually provide capital to in the shorter term is equivalent to roughly SEK 1.7 billion or below SEK 1.7 billion. I mean, obviously, you must have projected something in terms of when demand will return for the companies in question. How have you gone about – I mean, are you expecting demand to come back in, I do not know, Q4 2021 or yeah?

Georgi Ganev: Of course, I mean, I think it is very difficult for us to say how long this crisis will last. There are enough so-called experts that are having a lot of opinions regarding that. So I do not think we should be one of those experts but let me put it like this. We are conservative in our plans. We do not, for instance, expect a V-shaped return in travel during this year but a slow recovery. Therefore, companies within that sector such as travel, Omio, for instance and we are seeing that they have put themselves into what we call more of a hibernation mode. So of course, a company like that can reduce their spending significantly by not spending money on customer acquisition because there is little demand and also, of course, take other cost actions.

So that kind of hibernation mode can make the company last for a much longer time than the original plan actually told us where they were spending a lot of money in customer acquisitions for future growth. So that is one extreme example. We think that the market and also demand in many of our services will come back. The question is, of course, when. And the only thing I can say that we have been conservative.

Ramil Koria: Thank you. That is clear. So moving on then. I mean, looking at the valuation on the unlisted side, given that some valuations for specific companies are sanity check versus latest funding rounds, etc., and given presumably lower demand for new investments, among other, I do not know, call it, VC firms. Essentially, valuations should come down for some of the companies. Would not it be better to proactively lower valuations for the companies that will raise cash in the coming few quarters here? Does that make sense? Or...

Samuel Sjöström: No, but I hear where you are coming from. So the way we approach our valuations is that we look to assess the fair value of our investments and that is per March end. We do not necessarily take into account doing haircuts to have a buffer for future quarters, but the development in value during this quarter and the next quarter and the quarter after that will be reflected in each individual quarterly report.

Georgi Ganev: And also to add on that, Ramil, again, I said in my first point, when we are looking to invest more capital into any business, we will look at that case standalone. And of course, we will assess not only the valuation but also any types of protections, downside protections, that we can actually put in place. So we have a headroom in that investment for potential down rounds in the future or should the crisis continue for a longer time than we first thought. So those type of mechanisms is what Samuel talked about earlier in the presentation that is already now being active in some of our companies. So while our fair value is moving sometimes sideways, the actual valuation of the company has been significantly decreased.

Ramil Koria: Thank you. And then going to the liquidation preference that you have in some investments. I mean, Samuel, you spoke about it earlier as well but could you please elaborate specifically how it is weighed into the valuations you recognised in the quarter end? And perhaps for someone not so familiar with how private investments are made, I mean, what does it theoretically mean? And if you just could repeat what you said earlier about equity values in the latest funding rounds and how that weighed into your preferential rate

Samuel Sjöström: Sure, sure. So I will give you a general answer but that is specific to us. These liquidation preferences effectively mean that the capital raised by a company is paid back before common holders get their ownership stake. Hence, as long as our valuation is in excess of the amount of capital that this company has raised, we recoup our investment.

Now specific terms can vary between companies and between liquidity events and even between funding rounds in one company but that is essentially how they work. And should the valuation go beneath the amount of capital a company has raised, then proceeds would be allocated pro rata to the amount of capital invested as opposed to the percentage of shares held. Does that answer your question?

Ramil Koria: Yeah, yeah, it does. But no correlation is made to the actual balance sheet after all the capital raised versus your valuation essentially?

Samuel Sjöström: No. So we assess a value of a particular business and then we allocate that value amongst equity and debt holders in accordance with the terms of the various agreements in place.

Ramil Koria: Got you. Thank you so much, both.

Lena Österberg (Carnegie): Yeah, good morning. I have a couple of questions as well. First, a bit of a follow up on Ramil's question with the funding need for the existing ventures. Could you maybe say something about how has that changed compared to the funding need you saw before the outbreak of the virus? How much has it increased for this year?

Samuel Sjöström: Sure. Thanks, Lena. It has increased fairly marginally, I would say.

Lena Österberg: So are you still expected to invest most of your incoming cash in the existing ventures this year because earlier, you said about one-third would go to new investments over time?

Samuel Sjöström: Exactly. So the framework we have is a five-year one. So you should not necessarily look at a specific quarter or year. But that still holds and those types of proportions are still relevant.

Georgi Ganev: And basically, we see, of course, that in times like these, it is good to have fire power, which means that the one-third that we are deploying over this time in new opportunities, they can arise now but they can actually arise also by the end of this year or early next depending on how the market develops. And so we are seeing this, again, as Samuel said, over a longer period of time.

The companies we know in our kind of funding projection that needs cash, we of course have enough headroom for. But again, to repeat myself, it is not about deploying cash on the basis of the old plan but deploying cash, redeploying capital based on a new plan where many of these companies will be more efficient.

Lena Österberg: Okay. Then I have some questions on Kolonial. You say that now you have doubled revenues compared to the start of the year. You have ten more customers. But still, the company says that they need to scale volumes to reach profitability. I was wondering, you mentioned the revenue and the customer numbers, but how far are you from breakeven now that it is running at peak volumes?

Georgi Ganev: Now, I think probably about ten times more customers now than a normal quarter and that is because of this enormous surge in demand during these times. We do not believe that that would continue forever. But we do believe that the level of penetration and in general awareness of buying groceries online will actually continue also after this crisis so to be very clear on that.

The numbers we see today with these volumes make us certain that the business model is profitable already. But of course, we cannot believe that these volumes will continue for quarters ahead. So let us say, in other words, going back into a normal situation, hopefully then with slightly higher penetration, we know now in the plan exactly when the company can be profitable.

Lena Österberg: So what you are saying is that they are profitable at the moment?

Georgi Ganev: Yes, they are.

Lena Österberg: Okay. But then also the second question would be another near max capacity in the warehouse they have when they are profitable. So my question is, long term, because that is the whole thing with Zalando as well that to grow, you need new warehouses. And on a cash flow basis, it is still difficult to prove that over time that these businesses actually generate surplus cash because if you are profitable but your warehouse is at peak capacity and you need a new warehouse, I mean, does really the model work?

Georgi Ganev: Yeah, it definitely works. I mean, first of all, we have to remember that MatHem today, they have three warehouses in Sweden. So building the automated warehouse would increase the efficiency significantly. And also, of course, the same thing with Kolonial. Even though they have a very efficient warehouse, higher volumes can actually improve efficiency. So you order more of your goods direct from the suppliers to the warehouse instead of using third parties. As an example, you can build a bigger warehouse with more kind of slots for trucks, which also increases the efficiency. You can have different areas or sectors within a warehouse where you can handle different products such as the high rollers and the fast movers versus the long tail goods, etc. So I think that there is also scalability in becoming bigger and building actually an extended operation.

If you look at Zalando, for instance, this has been a discussion for a long time. But since they are growing so fast all the time and over the last year, they have grown from a couple of warehouses to 11 warehouses in Europe now. Of course, during that period of time, you have an increased CAPEX that I would say is not normal. When you reach more of a steady point and where you do not maybe have 30% growth but actually coming down to normal levels in this space, then you have the real scalability. So personally, I am not worried about the kind of never-ending CAPEX in warehouses because I also know from personal experience that there is scalability in becoming bigger.

Lena Österberg: Okay. Then I have a final question on Kolonial and MatHem. Why do you use different valuation multiples for them given that they should have the same peers?

Samuel Sjöström: So yes, they have the same peers. They differ slightly in financial profile and multiples at which they grade capital at and that is the primary reason. And as you will have noted in our report, we are not factoring in the sales during Q1 in our valuation but we are using last 12 months' worth of revenues for the yearend.

Lena Österberg: Yeah. But you are also using historic multiples, right?

Samuel Sjöström: We are using multiples per end of March.

Lena Österberg: Okay, all right. That was it. Thank you.

Georgi Ganev: Thank you.

Johan Sjöberg (Danske Bank): Thank you. I would like to pick up on just the last remark you made, Samuel, there on Q1 also for MatHem. You highlighted it was last 12 months ending at the end of 2019. And you also write something very interesting here, the multiples declining shortly by the end of March. Could you just give us some sort of indication what MatHem especially – talk a little bit about what sort of top-line growth you have seen in the quarter, also a little bit upon the margins also within MatHem?

And my last and final question when it comes to MatHem – sorry for talking about MatHem but I see all this MatHem trucks all over the place right now. So a little bit also about the number of people who have to subscribe to MatHem and also a little bit about the age distribution within that. I guess this opens up a lot of opportunities for you to get hold of people who would never sign up for these sort of services. I am actually thinking about my own mother, for example. Thank you.

Georgi Ganev: Thank you, Johan, for those questions. Unfortunately, I will make you a bit disappointed because we are not ready to disclose any detailed figures. That is because, I mean, competitive reasons and other reasons.

So today, we can just say that what we have seen is an enormous increase in demand. The main difference with MatHem and Kolonial that even though you see a lot of MatHem trucks, which means that they are the leading online-to-door online grocery player in Sweden. We still know that their kind of warehouse is so manually set up. It is constrained on manual labour compared to Kolonial that has much more of an automated warehouse.

So the issue or the challenge for MatHem has been to deliver on that demand. The team is doing a fantastic job to scale up but it is a lot of manual scale up that we see today compared to Kolonial. And of course, that is why we closed this round of SEK 500 million together with AMF and some others in order for them to be able to launch the new warehouse in 2021 that will be automated and efficient. So would we have that warehouse today, you should have seen maybe twice as many MatHem trucks on the streets that you see today. So unfortunately, we are a bit behind in that infrastructure rollout. But we knew that when we made the investment; we did not think that the demand would come this fast.

If I go to kind of the age groups, again, on a more general level, I would say that you are absolutely right. This is what I mean by increased awareness. So people are using these services, even though they have their old behaviours of walking through the closest grocery stores. We see loyal customers helping their friends or their parents to actually educate them how to use MatHem. So you are definitely right. It spread the awareness into different general groups, different customer segments.

The biggest, I mean, question today is, of course, how many of these customers will continue to use the service after the corona crisis? We do not know but what we can say is that when we look at different markets, such as in South Korea where we know the penetration is very, very high, after the SARS crisis, the penetration of online food went up significantly, almost doubled.

So of course, we have high hopes and believe that many of these customers will actually continue to use the service because it is not only a good service during a crisis. It is a very convenient service in our normal life. And if you save up to one and a half hours a week using these services, I think more customers will be aware that it is an excellent way of shopping. And of course, there are a lot of other, I mean, upsides by using these services such as over time, it actually will also increase the footprint because there is less waste since you have fewer basically distribution points compared to a normal network shape.

But I think what we should do is that when we are ready, because you are not the first one asking these questions, when we are ready, we will have a dedicated session on the Nordic online grocery journey and be more specific and open with what we see in our companies.

Johan Sjöberg: Yeah. Can I ask in a bit of a different way then? When you made the investments in Kolonial and also into MatHem and looking at your own models, what you would expect in terms of growth and profitability, etc., etc., KPIs, which you obviously have very sophisticated models upon. But when you look at those initial assumptions which you made and when you look at what you see today, what is the status, sort of where are we in terms of your own initial assumptions here?

Georgi Ganev: I would say that the assumptions on Kolonial, which was a big bet on can you improve efficiency significantly by having an automated warehouse, which is relatively CAPEX efficient as well, that was the big bet we did. That has been confirmed. And I would say that we have numbers that are even better than we had in our initial models in terms of unit per hour that that warehouse can actually deliver. So that is a very, very important kind of check in the box.

Then, of course, on demand, we are maybe a year or more ahead of the plan but that is due to the kind of short-term increase or surge we see in the demand. So that we do not expect to continue. But all the models are maybe one year ahead.

Johan Sjöberg: And the same thing goes for MatHem, then?

Georgi Ganev: Yes, absolutely. But there, we knew that there was no kind of automated solution in place. You have the demand but you do not have the efficiency increase. But if we would be a bit creative and use the kind of model and the blueprints of what we see in Norway, Kolonial, and apply that for the numbers in demand we see at MatHem, we would be in exactly the same position.

Johan Sjöberg: Got it. Got it. Can I ask you also, Samuel, you had a good slide showing about the valuation on the end of March and also what we would have been applying multiples yesterday, I am sorry I did not quite follow up here. I apologise for that. But what were your assumption on unlisted value, I mean, the valuation of unlisted assets assuming yesterday's multiples and you compare it with the reported numbers?

Samuel Sjöström: So apologies if I was a bit unclear. But the numbers you see on that page is only reflecting updated share price for our publicly listed investees. So the unlisted companies are unchanged versus end of the quarter.

Johan Sjöberg: Okay. Yeah, okay. But because there are so many different peer groups and to be honest, I do not have full insight into, like Quikr's, the different peer group multiples. But for us on the outside, should we use like NASDAQ, for example, how that is developing? Is that a good indicator? How you would say the valuation multiples are moving or just to get a feeling for it because it tends to move a lot here.

Samuel Sjöström: Sure. It is difficult to pinpoint sort of one reference here. But this quarter, I would argue that the rebound you have seen in our listed assets, you can typically apply on the unlisted assets as well.

Johan Sjöberg: That is great. Thanks so much.

Georgi Ganev: Thank you.

Derek Laliberte (ABG Sundal Collier): Thank you. So I am aware that your ambition certainly is to grow the private portfolio in relation to your total NAV but I was also wondering if you are actively looking for opportunities in public markets where there may be some interesting things popping up as well. I mean in practice, how does this work? Do you have somebody in the investment team monitoring this? And do you have a target list in this space and sort of following up to continuously – or is that not in focus?

Georgi Ganev: I would say the main focus, Derek, is unlisted assets because I think that is also the most valuable way for us to deploy capital in terms of equity story and why you should own Kinnevik, right? However, having said that, there are some newly listed companies or listed companies within our sectors that may not be accessible from our shareholders or they do not have enough information of those companies and those sectors. And there, we might actually invest in a public company. So we have always said that regarding Livongo, if I just should repeat the holding statement is that should Livongo be very low valued and we see an upside, we think we can actually – I know we have the access to buying shares. That could be a company to further invest in, for instance. But we do not have a, say, dedicated person or team that look up on public dislocations right now. The main focus, I would say, is to sweep the market for opportunities within the private sector.

Derek Laliberte: Okay. And then finally with regard to new investment opportunities, is there one of your target sector that is sort of the number one most interesting now in – where you are spending the most time in, in searching for a potential new acquisition?

Georgi Ganev: I mean I think there is not a specific one; we do it in all sectors. Where we have already doubled down is within healthcare, as you know. And we still think that that is a sector that can grow within the Kinnevik portfolio. We know more and more about the sector. We have a relatively good track record already within that sector.

The thing is, however, that this crisis has actually shown that these companies are even more valuable. So it is not the same kind of opportunity to buy companies at a dislocated price as in other sectors. So I think it is fair to say that we are look in all our sectors, actually, but we continue to double down on the ones that we have a small representation in.

Derek Laliberte: Okay, thanks. That is all for me. Thanks.

Elizabeth Miliatis (BofA Merrill Lynch): Good morning, everyone. It is Liz Miliatis from Bank of America. The first question would be, are there any assets in the portfolio where you are seriously questioning the cash flow sustainability or the fundamentals of the business or the industry as a whole where you might question whether you would actually commit extra capital in the next round? I guess you cannot specifically name those assets but just wondering if there are any of those assets in your portfolio at the moment.

And then secondly, are you looking at taking advantage of any government schemes that are out there to help any of your companies or is it very much just relying on the current capital structure for each asset? Thank you.

Georgi Ganev: Thank you, Liz, for your questions. I mean, when it comes to specific companies, we do not want to kind of out them here and now, of course. But I can go back to what we have said before. Our focus sectors remain the same and our focus geographies remain the same. So that is where we are looking to deploy more capital.

When it comes to basically your second question, there are a few examples of those things happening within the portfolio but they are very minor in general. I think the main reason for that is that our digital companies, relatively, some of the other industries we see now are facing less of those issues. So even our companies within, let us say, the travel sector are not as impacted since they do not have as many assets or employees compared to the traditional ones, for instance.

Elizabeth Miliatis: Okay, thank you.

Georgi Ganev: Thank you very much for listening and for your questions. And as a reminder, we will host our Annual General Meeting on 11th May and we will report results for the second quarter of 2020 on 13th July. I wish you all a very nice day and hope that you are safe and well. Thank you very much. Bye-bye.

[END OF TRANSCRIPT]