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Kinnevik Q4 Report 2020

Thursday, 4th February 2021

Opening Remarks

Georgi Ganev

CEO, Kinnevik

Good morning, everyone. And welcome to the presentation of Kinnevik's Results for the Fourth Quarter and Full Year 2020. I'm Georgi Ganev, Kinnevik's CEO. And with me today is our CFO, Erika Söderberg Johnson; our Director of Corporate Communications, Torun Litzén; and our Head of Strategy, Samuel Sjöström.

I'm also delighted to introduce you to Natalie Tydeman, who joined Kinnevik in January as a Senior Investment Director. Natalie, I know that you have hit the ground running and that you would like to take this opportunity to introduce yourself to the Kinnevik investor community. I think we have Natalie online.

Introduction

Natalie Tydeman

Senior Investment Director, Kinnevik

Sorry, apologies. It was – I was on mute, so. Yes, just to say delighted to be joining the Kinnevik team at such an exciting time. I have of course been part of the Kinnevik family for or extended family for a few years sitting on the Boards of MTG and NENT. But delighted to be properly in the throws of it.

My background, I've spent the last 15 years or so investing in digital businesses, a combination of different places, but primarily as partner and senior partner at GMP, which is a specialist TMT growth and buyout fund. And then my career before that was very much focused on building digital businesses, a combination of start-ups and building the digital divisions of large media groups such as Discovery and Fox Kids within the Fox Group.

So, very much looking forward to this next stage of my and Kinnevik journey.

Key Strategic Highlights

Georgi Ganev

CEO, Kinnevik

Thank you very much, Natalie. It's so great to have you on board. And I think your first comment there was what we have heard the whole of 2020 since March. Sorry, I'm on mute. So I think we're getting quite used to that. But thank you very much for introducing yourself. I'm looking forward to work closely with you going forward.

We will start today with a review of Kinnevik's year 2020 followed by some strategic highlights during the fourth quarter, an update on our company's performance and our financial position.

However, I would like to start by saying that despite the start of a vaccine rollout, the coronavirus continues to have a devastating impact on people's lives and economies worldwide. We are humbled by this. And as all of you, we continue to follow the development closely.

That said, Kinnevik is looking back at one of the most successful years ever. Our companies are well positioned to benefit from the accelerated shift to digital. And we have seen very strong returns, particularly in online fashion, digital healthcare and the online grocery segment. But even more important than top line growth is that our companies have attracted new customer groups at very low acquisition cost, groups of people that would previously have been difficult, costly and time consuming to reach.

Usually changing people's habits is the hard part. Once they've tried a superior product, they tend to stick with it. Therefore, we're increasingly convinced that the shift to digital is here to stay.

On the other hand, and as we have mentioned throughout the year, our travel and emerging market companies continue to suffer heavily from macro headwinds related to the pandemic. We are immensely impressed by how these companies have been navigating through this storm.

On page three, we have summarised the key strategic highlights during the fourth quarter. As we have continued to execute on our strategy during the year, the fourth quarter provides a number of strong proof points validating our strategy. Investment activity remained vibrant as we continue to back the winners in our private portfolio through follow-on investments in Cityblock and Budbee. We also complemented our food portfolio with new investments in HungryPanda and Simple Feast. And as announced yesterday, we have also invested in Vivino, and I will go through these companies in more detail a bit later in the presentation.

As the pandemic has shown the critical role of digital health care, we've seen a strong traction and value creation across our healthcare portfolio during 2020. As evidence of that, Walgreens and VillageMD announced that they are accelerating their partnership. Walgreens is now supporting the rollout of up to 700 primary care clinics within the next four years with intent to build hundreds more thereafter.

And something that I'm personally very proud of is the recognition we have received during the quarter for our sustainability efforts within climate and diversity. We truly believe that to be a long-term successful company, you need to contribute to making the world a better place. And while we're very happy with what we have achieved and what our portfolio companies have achieved so far, we will never be satisfied.

We continue to increase our efforts and to drive change internally within Kinnevik and across our portfolio. Our net asset value was up by SEK3.8 billion or 4% in the fourth quarter. For the full year of 2020, it was up by 52%. The development during the quarter was driven by strong share price performance in the London Global Fashion Group combined with a broad-based revaluation of our unlisted portfolio.

Our financial position remains strong with a net cash position of SEK4.8 billion. And Erika will take you through the development of our NAV in more detail as well as their valuations of our unlisted companies in a few minutes.

But first, I would like to take a step back and spend some time on what we have achieved during 2020. Starting on page four.

On the left-hand side are the key priorities we set out to execute at our Capital Markets Day in September 2019. We ended 2020 with three clear priorities: continue to pivot towards growth; strengthen our portfolio balance; and reallocate capital more dynamically.

On the right-hand side are some of the key highlights during the year. We have continued to double down in our healthcare strategy with new investments in Cityblock, Joint Academy and Town Hall Ventures. We also invested further in VillageMD and Cedar and participated in a funding round in Cityblock, which closed just before the year-end. Over the year, our healthcare portfolio has grown to represent 20% of our total portfolio compared to 9% at the end of 2019 and about 3% at the end of 2018.

Another key theme of the year is how we have complemented our food portfolio with new investments. We also invested further into MatHem, cementing our leadership position in the Nordic online food sector. We invested in Common, a residential brand and tech-enabled managed rental housing marketplace in the US. And with this, we executed on our strategy to broaden our consumer services portfolio towards business models that reflect consumer and broader market trends.

On the theme of creating value in our large listed companies, we supported the merger between Teladoc Health and Livongo, creating an unmatched comprehensive platform for virtual healthcare delivery.

And in May, we announced ambitious climate targets for Kinnevik in our portfolio, an initiative which we believe is critical to future proof our portfolio for a new low-carbon economy. And in order to reach our targets, we are in the process of rolling out climate strategy across our portfolio which includes having our companies measure their emissions and set reduction targets in line with science.

Last but not the least, we also made a second sell-down in Zalando, generating proceeds of about SEK6.7 billion. This also enables us to distribute SEK1.9 billion to our shareholders. With a portfolio of many exciting growth companies in our focus sectors and markets, companies which are well positioned to benefit from the shift to digital and a strong financial position, we have executed on the key priorities which we laid out at the beginning of the year.

And now page five is an overview of the follow-on investments we made during the quarter. We participated in a funding round in Cityblock that valued the company at over $1 billion. And as a reminder, our initial investment was in June 2020. And as such, this successful funding round is a testament to the company's strong momentum and a validation of their business model.

We also participated in a funding round in Budbee led by Swedish pension fund, AMF. E-commerce enablement is a key focus area for Kinnevik's consumer services strategy. And Budbee has solved the last mile challenge and are offering consumers a new level of convenience as they increasingly turn to online shopping over physical retail. And the capital will be used to accelerate growth further and focusing on international expansion and product development.

Going to page six. We have now provided you with an overview of the two food investments we made during the quarter, HungryPanda and Simple Feast.

Starting with HungryPanda, which is a leading online delivery platform for Asian food. It caters specifically to Chinese customers outside of China, delivering food from Chinese restaurants and Asian grocery stores. The company was launched by Eric Liu, a computer science graduate at the University of Nottingham, who wanted to fix a problem he experienced firsthand, getting hold of authentic Chinese food on demand away from home.

And since its foundation in 2017, HungryPanda has seen very strong growth and is now live in almost 50 cities across Australia, Canada, France, New Zealand and the UK. It has also reached profitability in two of its largest cities, London and New York. And this investment is an exciting compliment to Kinnevik’s food strategy and adds exposure to the out-of-home space, which is particularly popular with the younger users.

Simple Feast produces and sells plant-based meal kits and everyday essentials. The company was founded by Jakob Jønck, who is deeply passionate about helping people embrace a plant-based diet without compromising on the taste. Eating more plant-based food is better for our personal health and better for the planet. And sustainability in health are global trends on the rise and the company has grown quickly over the last few years.

During 2020, it had delivered 1.4 million meals across Denmark, Sweden. And in early 2021, the company also launched on the US West Coast.

Moving to page seven, where you'll find an overview of our most recent investment, Vivino. Vivino is the world's most downloaded wine app and the largest online wine marketplace. The company was founded by Heini Zachariassen and Theis Søndergaard, who set out to create a service for people that want to find great wines without having to become wine expert themselves.

Today, Vivino has a very strong community of 50 million people who turned to the platform for its personalised recommendations, unbiased rating system and its large selection of wines. The market for wine is massive at around $400 billion per year globally. And online wine sales have risen steadily and have been further accelerated by the pandemic. Vivino has, in recent years, introduced a marketplace which allows users to order their wines directly through the app. And so far, the company has only converted around 1.5% of its app users to buyers but still has managed to reach significant scale and profitability.

We believe Kinnevik can be a great partner to Vivino and the continued growth journey given our extensive experience within marketplace offerings, and we look very much forward to work on this company together with co-investors, founders, managements and directors.

On page eight, we have provided some more details on the performance of our large listed companies. Zalando reported exceptionally strong and profitable growth in the third quarter. The company added six million new customers and raised their guidance for 2020 on the back of strong momentum. And importantly, this step change in demand and inflow of new customers provides Zalando with a strong foundation to continue building from.

Tele2 had a more challenging year 2020 and felt the headwinds of COVID-19. However, the company has showed relative resilience and flexibility by growing the underlying EBITDA after lease for the full year despite of the pandemic. The Board of Directors proposes an ordinary dividend of SEK6 per share, which is a 9% increase from last year.

Teladoc reported strong financial results for the third quarter. This was driven by a broad-based strength across the business and building on the momentum in the first half of the year. The company is seeing consistent growth in member visits and recently also entered new and expanded client partnerships with industry leaders.

And on the next page, we've highlighted a few of our younger growth companies. At its peak, our two Nordic online groceries had a customer intake of 10 times that of the pre-pandemic levels. They continued to see strong growth. Kolonial has made important improvements on their path to profitability with picking efficiency levels in line with global leaders.

MatHem continue to grow faster than the overall market, but it's dependent on the new warehouse which is planned to be operational in 2022 in order to reach profitability. Similar to Zalando, Global Fashion Group also reported strong profitable growth in the quarter. They accelerated their marketplace offering and was cash flow positive for the second quarter in a row. This is a true testament to the strength on their business model.

In addition to the accelerated partnership with Walgreens, VillageMD continued to grow its business through acquisitions of primary care practices and increased adoption of its proprietary healthcare operating system. The company is also participating in the new value-based care programme run by the US government across several states.

For Babylon, 2020 was a true transformational year, as many of the company's strategic initiatives began to deliver strong growth. It now has 20 million members and added coverage in eight new countries, including the US. Babylon is also taking a step into value-based care not to say the least through the acquisition of FirstChoice in California. In the UK, Babylon is now the largest primary care practice of any kind.

I would now like to hand over to Erika to go through the main drivers of our net asset value development during the quarter, as well as our financial position starting on page 10.

Financial Overview

Erika Söderberg Johnson

CFO, Kinnevik

Thank you, Georgi. When looking at the valuations of our private companies throughout 2020, they can, in essence, be summarised in three key trends.

Firstly, the boom in digital consumer healthcare multiples. Secondly, online grocers and last-mile logistics companies have fast forwarded their business plans by 12 to 18 months. Thirdly, emerging markets and travel have suffered heavily from macro headwinds. The fourth quarter of 2020 is a manifestation of these three trends.

Looking first at our public companies. Tele2 continued its slight downward slope, and the value of our investment was down 9% during the quarter, including dividend paid. Meanwhile, Zalando was up 9% or SEK4 billion. And the Global Fashion Group has continued its massive re-rating and was up 72% in the quarter. GFG ended up the year at 295% compared to the end of 2019.

Teladooc, which finalised its merger with Livongo during the quarter, had a soft fourth quarter but has regained that by margin in the start of 2021.

Looking at our private portfolio. The fair value of our unlisted assets was written up by SEK1.8 billion or 12% in the quarter. With SEK0.2 billion net invested, the total value increase amounted to SEK2 billion. We continue to value Kolonial on an LTM revenue basis. And the fair value of our stake has been marked up by 32% on the back of continued strong operational performance and growth.

For MatHem, we have kept our multiple largely unchanged as the company is behind Kolonial with regards to operational efficiency and profitability. Budbee is up 52% following a successful fund raise in the quarter, fuelled by the accelerated demand for last-mile logistics during the pandemic.

Our stake in VillageMD was written up by SEK1.4 billion or 41%. As multiples have expanded in the quarter, and as discussed earlier, we believe the gap between our valuation of VillageMD and its public peers should narrow over time. Our investment in Cityblock was marked up by SEK383 million, or 122%, in line with a December Series C funding round. Together with our investment of SEK155 million, the assessed fair value now amounts to SEK841 million.

On bad loan, we have applied some of the parts valuation model of its different revenue streams as we move away from the milestone valuation approach. In this quarter, we revert to the valuation applied in the company's most recent financing round. This is on the back of improved visibility on the company's performance and its pivot towards value-based care via the FirstChoice acquisition completed in October 2020.

As previously mentioned, our travel and emerging markets companies continue to face headwinds. Omio and TravelPerk were both written down by 16% on the back of continued negative outlook for travel. Our emerging markets assets were written down by 15% in aggregate on the back of worsening macroeconomic outlooks and regional lockdowns. Those of you who have read our report more closely this morning may have noticed that we have made a provision for a potential tax liability in the quarter.

Based on the revised rules for accounting of uncertain tax positions in IFRIC 23, Kinnevik has made a reservation of SEK832 million pertaining to a potential capital gains tax relating to the merger between Teladoc and Livongo. Kinnevik considers that the transaction falls under one of the applicable exemptions. And therefore, should be considered tax neutral. And relevant tax returns will be filed accordingly, but has deemed it prudent in compliance with the guidelines to make a provision upfront. The impact of this provision on our reported net asset value is 0.7%.

All in all, our net asset value amounted to SEK111.7 billion at the end of December. That's SEK402 per share and represents an increase of SEK3.8 billion or 4%. The NASDAQ traded up 15% and the OMX has steadily traded up 2%, while our share price appreciated by 14%.

For the full year 2020, our NAV was up by 52% and our private portfolio was up 22%. We are, of course, as always, happy to answer any questions you may have on our valuations when we move on to Q&As. I would however like to take the opportunity also to highlight pages 24 to 26 in the report, where we have elaborated more on our valuation assessments and methodologies.

I would also like to update you that with yesterday's closing prices of our listed assets, our NAV was €123.8 billion, which is up 11% so far this year.

Now, please turn to page 11 for an update on our financial position. During the quarter, we invested SEK0.8 billion. We received ordinary dividends from Tele2 amounting to SEK0.5 billion together with an extra dividend of SEK0.7 billion. We also received SEK1.2 billion in cash consideration from the Livongo and Teladoc merger and SEK0.5 billion from the sale of Bread. This takes our net cash position at yearend to SEK4.8 billion.

So in summary, we have a very strong financial position, which gives us full flexibility to execute on our capital allocation plan and continue transforming our portfolio towards a higher share of private growth companies.

With that, I would like to hand back over to Georgi for some closing remarks on page 12.

Conclusion

Georgi Ganev

CEO, Kinnevik

Thank you, Erika. Before we go into the Q&A, I would like to remind you that Kinnevik will host a digital Capital Markets Day on 24th February. We will be providing you with an update on Kinnevik's strategy, financial position and capital allocation framework. We will also present deep dives into our focus sectors and be joined by representatives from our investment organisation and from some of our companies. You can read more and register for the event on our website and you're very welcome to participate.

We're now ready to take your questions. So operator, please open up for Q&A.

Q&A

Operator: Thank you. If you do wish to ask a question, please press zero one on your telephone keypad now. If you wish to withdraw your question, you may do so by pressing zero two to cancel. Once again, if you would like to register a question for the speakers, please press zero one on your telephone keypad. And our first question comes from the line of Derek Laliberte of ABG. Please go ahead. Your line is now open.

Derek Laliberte (ABG Sundal Collier): Thank you, and hello. I had a question on Babylon. I listened to VNV Global, which has also invested in the company and they are quite outspoken, I would say, about the potential valuation of the company, the benefits that an IPO would bring, et cetera. It'd just be really interesting to hear what your view is of the potential and what are the biggest execution risks currently? And also, I was wondering how – why you did not participate in the latest funding round? Thank you.

Georgi Ganev: Thank you for that question. So let me start, and if there is more specific questions on the valuation, I will hand over to Samuel.

But, I mean, we believe there's great upside in Babylon, for sure. It's a fantastic company. If you look at the growth last year, and as we say, many of these growth initiatives that the company laid out has started to deliver, right? And Babylon is capitalising on two important trends. First is the move to digital. But the other one is the shift towards value-based care. So it's kind of a strategy that is right spot on, on the trends we see, but it's also quite difficult to execute on.

So far the company has been proven that they have these capabilities. As you know, we already look at these more isolated milestones of rolling out certain contracts, establishing this platform in the US. Now that is done, and we would move into another type of valuation methodology. But as we've said before, we look very much in our valuations at the kind of the lagging, the trailing numbers instead of the future numbers. And of course, that makes this gap, or I would even call it, a delay towards certain other investors that you might have been in touch with.

When it comes to execution, I think the rollout of these large value-based contracts and the integrated – the delivery of care product, the timing of those, think that's the biggest uncertainty. The company has proven that a product works. Customers are happy both end users but also their B2B customers. But it's quite complex to roll these customer out. And I would say that is maybe the biggest challenge to make sure that you can forecast these contracts and you're able to roll them out in a timely manner.

So that will be my kind of very general comment. But again, to answer a very direct question, we believe that there is true potential in Babylon going forward. Yeah, and –

Derek Laliberte: And for the funding round?

Georgi Ganev: Yeah, the funding round question is, if you look at our healthcare portfolio, and you see that it has grown from 3% in '18, 9% in end of '19, and now a bit above 20% end of 2020, we've tried to create a broad portfolio with different type of exposures. So it's chronic care treatment. It's more infrastructural services like Cedar that focus on patients' engagement. It is also the virtual care piece. And it's the more specific value-based care trend.

Since our company, Livongo, or the company we invested in, was sold to Teladoc, we already got a very high exposure to the more telemedicine piece. I wouldn't say that Teladoc is the same as Livongo, but of course they're exposing more or less the same type of trend. Therefore, we thought it was more important for us to continue to back some of our value-based care companies like Cityblock.

Another reason is that in Cityblock, we had less ownership in Babylon. So if you look at your capital allocation framework, we wanted to kind of turbo-charge that ownership in Cityblock rather than actually expanding our ownership in Babylon, where we already are above the 16%.

Derek Laliberte: That's very clear and very understandable. And just a follow-up on the sort of execution and the contract signings. Are there any news there on additional signings and the execution currently is that mainly on contracts with like NHS and potential that we'll have a collaboration with the company for quite some time?

Georgi Ganev: I don't want to comment on individual contracts. I think it's better if the company does that. From our perspective, we, of course have, let's say, a very close – we're monitoring very close the forecast and the signing of new contracts. And so far we're very happy with the progress that we see. And as we said before, the US expansion is instrumental for Babylon and there is also where we see the biggest growth.

Derek Laliberte: Got you. And just with regards to your new – this very exciting investment team in Vivino. How does the competitive landscape look here in your opinion?

Georgi Ganev: I think when it comes to the community of wine, we haven't seen anything close to Vivino. They have 15 million users. They have 200 million ratings. They have over 70 million reviews. And, of course, if you look at the usage and activity, the app has been scanned – scanning 1.5 billion bottles, right, not unique bottles but the database today consists of 12 million wines. So there's hardly anything within the wine kind of market you can't find on Vivino. So there, I think, they have a unique position.

When it comes to the kind of marketplace, they've just started. And that's where Kinnevik see the biggest potential, right. So converting more than one of those 1% or 1.5% of the app users into buying wine. And as the founder have said many times, it's not necessarily about making people to buy and drink more wine, but it's actually to find the right wine and a better wine that can be paired with your food.

And there we think that Vivino has this very unique customer proposition and platform. So we think it's enough. They're unmatched on that sector.

Derek Laliberte: All right. Sounds very promising. And finally, kind of a boring question, I guess. But I mean there's been some negative media attention on I guess investigations regarding one of Budbee's peers called the Best about low salaries, extremely poor working environment, et cetera. I mean, could you put Budbee in this context then sort of explain how they're doing things there differently?

Georgi Ganev: I think generally, as you know, we take governance very seriously and we have our standards that we follow. So many of these standards are specifically around working environments and so forth. And that's something we follow, of course, with the company. Of course, it's very difficult for me to comment if Budbee has any issues. What we see in our report is that is not the case. And we, as an investor, would never tolerate what you referred to at Best.

But I would say I would rather redirect those questions to the company directly so they can answer. But our opinion is that you should have a healthy working environment for all our companies.

Derek Laliberte: Got you. It's very clear. Thanks. That's all for me.

Operator: Thank you. Our next question comes from the line of Joachim Gunell of DNB Markets. Please go ahead. Your line is open.

Joachim Gunell (DNB Markets): Thank you very much. Good morning. So a couple of questions for me, given the very strong performance of the listed portfolio, say, Teladoc and GFG in particular being up some 30% year-to-date. How do you think about the trade-off? Do you have a more dynamic capital reallocation that you've alluded to versus your already very strong balance sheet?

Georgi Ganev: I think we have a very strong financial position. And as Erika laid out, we feel that we have the flexibility to do investments. So there's no need for that reason. However, we also said that we want to be dynamic when it comes to capital reallocation and that we will continue to be going forward. But I have no further comments on that. But right now, from a cash perspective, we feel very safe.

Joachim Gunell: Roger that. And to come back to what Derek alluded to, I mean, some of your unlisted gems, as they mature, they approach say various degrees of IPO readiness. So more broadly speaking, what's your view on the more, say, unconventional listing methods such as SPACs versus the more traditional processes? What do you prefer when the time is right so to say?

Georgi Ganev: I think on that question, it's again maybe a boring general comment. We, of course, have followed all the SPACs. We think that's one of the tools in the tool box. And I think it's very difficult to say now what company would fit better to a SPAC or a stand-alone IPO or to be kept private. What we think is interesting is that that's again a new alternative for a company to raise capital.

And before every kind of funding round, we will evaluate with our co-investors, our partners and the company, of course, what's the best way for them to raise money. SPAC is one alternative.

Joachim Gunell: Interesting. And just finally from me, on the Vivino investment, it seems really the attractive portfolio addition from a financial perspective. But what's your thinking regarding, say, the alcohol exposure? Could it be, say, challenging from an ESG screening perspective for you to attract the institutional investors in any way?

Georgi Ganev: Yeah. Of course, we have considered that and I think it's a relevant question. We think however that the type of use case we see in Vivino is not about maximising wine sales necessarily to each individual. Of course, they would like to convert more customers into buying wine, but it's about finding the right wine. So it's not the use case that you would typically see in all kind of bank sell – bulk sales of cheap wine or liquor for that matter. So that’s kind of one answer more from the kind of moral point of view.

So if you would accept that restaurants sell wine as part of their menu and you drink wine paired to food, you would accept the use case of Vivino.

The second question is, would this have any concrete impact for some of our investors? We think on that question, the kind of the number – the sales in relation to our entire portfolio is very, very small. So as we see today, it should not have that impact, as long as no one have zero – absolute zero tolerance for wine. But that is not our understanding of most of the policies. So that is more kind of from a policy or portfolio perspective, if you will.

Joachim Gunell: Understood. That’s all for me. Thank you, Georgi.

Georgi Ganev: Thanks.

Operator: Thank you. Our next question comes from the line of Lena Österberg of Carnegie. Please go ahead. Your line is now open.

Lena Österberg (Carnegie): Thank you. Two questions, if I may. First of all with Chris Bischoff leaving, I was wondering should we read something into that that you're changing which sectors you invest in? If you will focus less on the healthcare segment going forward, valuations is even maybe peaking here and you're focusing in other sectors? Or you will continue with the same strategies you've had before? And the second question I have is on the online food grocery side. As you mentioned, we have maybe jumped two years ahead in adoptation and you managed to reach new segments, which probably have been hard to reach, are not seen as traditional early adopters, new trends. Do you expect – based on what you're seeing now this quarter, have you seen a return to more normal behaviour, or people still continue with the online grocery shopping trend? Thank you.

Georgi Ganev: Thank you, Lena. Starting with the question regarding Chris then. The short answer is absolutely no. We're very excited about our healthcare portfolio and the sector as such. I mean, although it's been growing very, very fast, thanks to us deploying a lot of capital into that sector. But more importantly, these companies has been performing extremely well over the last years. We still see opportunities going forward.

I would like to comment maybe also the fact that Chris is leaving. I regret to see him leave, but it's actually after eight years in the company. And I'm very happy to have been a close partner with Chris and the entire team for the last three years. And during this time, I think we also strengthened the Kinnevik platform, both when it comes to external advisors and partners that we work with but also the internal team. So, the team, as such, will also have an opportunity, I would say, to broaden their responsibilities and take this forward.

Secondly, I think it's a very strong portfolio, as said. So we will continue to work from a strong position. That's also important. Chris is leaving Kinnevik when he will leave in Q2 with a very strong portfolio behind.

And thirdly, Chris is going to General Catalyst. And General Catalyst is a partner of Kinnevik already today. We are co-investors with them in many companies in our portfolio, both within healthcare but also in the broader consumer services. And I think they will become an even more important partner going forward.

So all in all, I think this can be an opportunity for Kinnevik. And I also take this moment, since you bring this up and then also in front of everyone, to thank Chris for all the contributions that he has brought to the company so far. And I am looking forward to work on this transition, we also hands over to Natalie Tydeman over the coming months and continue to work on existing companies and new opportunities.

The second question is regarding the customers that have been acquired for the online groceries. And you're absolutely right. We've been able to reach potential customers. We're changing the consumer habits, has proved to be very difficult in the past. Now, they have been more or less forced to use the service. And I think we can expect that as for every kind of customer cohort that you acquire in this type of business, some people will churn.

So the survival rate is unfortunately not 100%. But what we see, which is very interesting, is that out of those cohorts that we have been able to acquire, it's not a very typical pattern that customers that were difficult to acquire who were not, let's say, early adopters are more likely to leave the service. Sometimes they have actually received this, no, let's say, wow feeling where they have tried something that it didn't actually think would improve their daily life that much.

So it's very difficult to say now because we are unfortunately not through this pandemic but we feel that of the new customer cohorts that we've acquired, there's a very good chance that many of those customers will continue to use the service going forward, but, of course, with that natural churn and survival rate that we have seen also in the past.

Lena Österberg: Could I maybe ask a second question?

Georgi Ganev: Sure, go ahead.

Lena Österberg: Third actually. My math is not that great. But I was going to ask you on the warehouses that have [inaudible] is building. How is that process going along? And when do you expect those to be completed by which date?

Georgi Ganev: We don't have a specific date. What we say is during 2022. And the reason for being not more specific than that is that we had of course an original plan, but then the pandemic came and we saw a surge in demand for both Kolonial and MatHem.

MatHem, as you know, had more of a manual labour in their warehouse. And of course to be able to cope with that extra demand during the – especially the initial phase of the pandemic, required a lot of people to focus on that. So we took over the warehouse from Foody, for instance, and managed that setup in just five, six weeks. And we've also improved the processes in the existing warehouse. And that has, of course, postponed the time plan slightly.

But we are very committed to have the new warehouse operationally up and running during 2022 and that warehouse will increase the efficiency and the customer experience significantly. So that's why we also are quite kind of bullish on the MatHem case although we know that that's a very hard requirement for profitability.

Lena Österberg: Thank you.

Operator: Thank you. Our next question comes from the line of Ramil Koria of SEB. Please go ahead. Your line is now open.

Ramil Koria (SEB): Thank you, operator. Hi everyone. A few questions from my side. Just on the topic of digital acceleration and the pandemic leading to a pull forward, if you want or if you will, in terms of customer behaviour. How should we reason about growth rates going into 2021? Could we see a sideways development in some of your assets and perhaps more specifically on the grocery e-comm side where sort of churn and new customer intake basically net each other out throughout the year?

Georgi Ganev: Hi, Ramil. Actually, I don't think that's the case. The position we have today across the portfolio on these companies that have seen an increased customer acquisition that goes for basically all our e-comm companies both within fashion and online groceries. I think that starting position is so good with these new customers so that they can already now forecast a good growth in 2021.

But, of course, this is also dependent how the kind of pandemic continues if we're going to see this hyper growth of new customers or if it's going to be a more normal growth "from a new baseline". But I don't see that the churn will kind of net out the growth in these companies.

These companies already had a strong growth before the pandemic. Now we are starting from a higher baseline. But as we just mentioned 10 times more customers than the year before in the early days of the pandemic for online groceries means that you have a great customer group to start from in 2021.

Ramil Koria: Let me rephrase that. Thank you, Georgi. But I mean, CAC levels could easily surge going into 2021 because if you've seen a pull forward and obviously customer cohorts that were supposed to come in the next one and two years came in 2020. So will the growth in 2021 then be CAC intensive, if you will, or do you foresee growth with existing customer cohorts as well for instance?

Georgi Ganev: Yeah. We see – firstly, we see growth in existing cohorts because if you look at many of these services, the move, let's say, within the share of wallet or the shift of the share of wallet also increases over time as the customer becomes loyal, right. So the frequency increase and you have less kind of complement orders from other channels. That's one thing. So your loyal customer will become more loyal over time.

Secondly, I think that even though we have supercharged the customer acquisition during 2021, it’s mostly in those consumer groups that we couldn't actually reach before or change the habits. So in 2021, I think it will be more normalised than definitely in 2022. But I don't think that we have had the growth in 2020 and early 2021 on, let’s say, on netting out or netting the acquisition cost going forward. I don't think that's the case.

Ramil Koria: It's very clear. Thank you, Georgi. Another question on the topic of – or on Babylon, perhaps. I mean you were quite explicit in the fact that in the scenario where you see some milestone wins, you were going to raise the valuation in Q4. And now in Q4, you decided instead to change the valuation framework. Could you just – perhaps if Samuel wants to chip in here, take me through how you reason to arrive at this framework change and perhaps if they're lagging behind in terms of milestones?

Georgi Ganev: Yeah. I will hand over to Samuel, I think, directly.

Samuel Sjöström: Sure. Hi Ramil. Glad you asked that question, so we can shed some more light on that. So, as you know, we're moving away from the milestone-based approach we've been using in the last few quarters. And this sort of approximate 15% dollar increase in our assessed valuation is in part the function of Babylon reaching that milestone sort of albeit in a different way than we perhaps originally envisaged. And it's also in part the function of some encouraging process that Georgi covered, namely, that they've strengthened their financial position. They grew revenues by around 4X in 2020. And they have this very, very strong pipeline of exciting new contracts, primarily on the value-based care side.

Now I realise that this value change per say might be slightly underwhelming. But the big change here, as you point out, is the change in our approach. And the model we're now using in assessing the fair value is based on forward-looking multiples, 2021. It's drawing on a number of peers, as I believe we lay out in today's report. And this we believe will serve as a more dynamic approach to valuing this business in the coming quarters.

And perhaps some sort of clarifications. We look at fiscal year recognised revenue. We're not looking at sort of end of year ARR or a metric taking into account contracted but not recognised revenue. And as we've been discussing in the last few quarters with you guys, Babylon is a hyper-growth business that makes forecasting tricky and also volatile. And that difficulty is clearly compounded by the need to take views on the pipeline and the conversion of that pipeline and delivering on and rolling out all of those contracts in a timely way. So how we tried to deal with that difficulty is by basically derisking our valuation assessment fairly materially in a couple of ways. And here's where our famous conservativeness comes into play.

So firstly, we discount the peer multiples we use, considering Babylon is still a smaller and less proven, less profitable business than the very large and mature peers. Secondly, we impose fairly conservative assumptions relative to the company's own plan as it relates to primarily the timing and the conversion of the pipeline.

And lastly, we value revenues that stem from this primary care network that they acquired in the end of the year at the price that Babylon paid for that business rather than at the sort of higher multiples we might use for Babylon’s other value-based care contracts stemming from other partners.

Now being less conservative on either of those three parameters clearly has a very positive effect on our fair value. And it's these three levers we will be pulling in the coming quarters. So we'd rather have Babylon meeting their plan having a materially positive impact on our NAV rather than a neutral one. Was that helpful?

Ramil Koria: It was. Great answers. Thank you so much. A final one from my side. I mean, financial services, with exit of Bread, you’re down to, is it four holdings in total? And I guess, least to say, they haven't performed sort of in accordance with the broader group here? Could you – and this is obviously a question for the Capital Markets Day as well. But could you take us through now how you reason within that specific segment moving forward in terms of investments and exits?

Georgi Ganev: Yeah. It's fair question, Ramil. And I think we will elaborate further on that on the Capital Markets Day. But I mean, I think the broader answer from my perspective is that when we presented our capital allocation framework in 2019, we got a few questions on we would like to distribute this capital evenly. Does that mean that every kind of third sec will go to each one of those sectors? And we said clearly no.

We look at these opportunities. But more importantly, we look at the companies we find. And we have been – we had more conviction in digital healthcare and some other sectors than financial services until this day since we disclosed this framework. That’s clear.

I think in the FS space, we will evaluate also how much actually we will build upon our existing knowledge of the ecosystem around e-commerce, for instance, right? So are there FS-enablers around those companies that we know very well, that we can actually use that expertise and define these customers on a more kind of B2B2C model than a pure play B2C or direct-to-consumer FS service, if you will.

So that is still kind of in the making and tweaking, which we will talk more about on the Capital Markets Day. But I think more importantly is that we have just seen so many great opportunities in the other sectors. And therefore, we've taken this decision to reallocate the money dynamically. And that was basically the answer on Bread.

Ramil Koria: Great. That's very appreciated. Thank you so much.

Operator: Thank you. Our next question comes from the line of Nizla Naizer of Deutsche Bank. Please go ahead. Your line is now open.

Nizla Naizer (Deutsche Bank): Great. Thank you. Just two questions from my end. Firstly on the food value chain. It seems like you're now covering a much broader sort of footprint in the food value chain. You've got the online groceries. You've got the food delivery takeaway players with HungryPanda and meal kits with Simple Feast. I just wanted to understand going forward, which of these three sort of sub-segments do you think you'll want to expand your presence in, given that you now have a foot in all three? And connected to that, could you also give us some colour on the revenue and profitability profiles of HungryPanda and Simple Feast?

Georgi Ganev: Yes. So basically starting with the first question, I think since we've already invested quite a lot of capital in the existing online groceries, if look at sort of downstream, we will more likely follow these companies and continue to back them as they perform rather than finding new opportunities in that specific case. I mean, that is basically the intention or the ambition as of today at least.

So on that question, we like to continue to broader the food space which would naturally mean that we will look for opportunities like you've seen now in the recent quarter, with Simple Feast and HungryPanda and of course continue to support these companies again because they are growing very, very fast and would need capital going forward. So – but it's rather that part of the kind of food sector that we will explore more when it comes to new opportunities.

Then I would also like to say that there are many other aspects of the food sector. Now, we talked about delivery of food in different type of business models, but you can also think of other type of kind of vertical integration or integration of the value chain. So the food space for us is super interesting and we think it's going to be a major theme for many, many years to come.

When it comes to profitability of these companies, right now we've invested in Simple Feast and HungryPanda for the purpose of growth. We think that they are capturing two very, very large trends that are important. So Simple Feast move and pivot towards plant-based food, which is good for your health, which is good for the planet. And that I think is something that we really believe in, and we will continue to support that company in their geographical expansion.

But both of these companies have good signs of profitability in more mature parts within the portfolio. So we know that their business model works, but of course since they're expanding that heavily into new areas and spending a lot of kind of energy and efforts and money on acquiring new customers, we don't look for profitability in the near term. Did you have another tweak on that question or did I misunderstood you?

Nizla Naizer: No, that's perfect. Exactly what I wanted to know. I guess my second question is on Vivino. And again connected to the other question, you're saying that it's already profitable. Any colour you can give us on the margins that they generate? And also the revenue profile that they do? You've mentioned the GMV. And also you said that you're investing $70 million. What is the current stake in Vivino with that investment? If you can share that, that would be great. Thank you, Georgi.

Georgi Ganev: So basically I would refer to the communication that the company has made regarding the sales. And in an article published end of January, the founders said that the company had sales around $250 million in GMV. So that's the figure I would like to refer to with a very fast growth or steep growth last year. When it comes to profitability, that has not been disclosed. We see again that the business model works. And already by converting 1% of the users with that scale and the $250 million in GMV, the company can make profit on that business.

So for me it's what's needed in order to have the conviction to further scale the business. And the other margin details in that is not disclosed by the company and we cannot do it either. Same goes for the size of our stake. So it's, of course, linked to the valuation and the ratio of primary and secondary. So it's not disclosed yet but it might be going forward.

Nizla Naizer: Got it. Thank you very much.

Operator: Thank you. Our next question comes from the line of Christophe Van der Kelen of Value Square. Please go ahead. Your line is now open.

Christophe Van der Kelen (Value Square): Hi. Thank you for taking my questions. Good morning. I had a question on the listed assets of Zalando and Teladoc. If I remember well, on one of the previous calls or maybe I read it somewhere, you said that since the participation in Teladoc of Kinnevik went to 5%. It was not as much as a strategic asset anymore as it was when you had only Livongo. So I was wondering how you look at that? And also at Zalando last year, you have sold down a couple of points in the year your stake in Zalando. I was wondering how you look at that now going forward because I understand that Kinnevik could always look at these stakes as are we the best owner in these companies and can we then move forward? But it looks to me that Zalando and Teladoc are now mature enough not to need that much of a strategic owner anymore. I was wondering at what point you would be looking at selling? Would it still be like are we the best owner? Or are you looking at can we have any other investments in that space, are there more attractive at this point? Or will you purely look at what price can we sell these assets at, given also that you have sufficient cash at the moment to do further investments, there is not really a need to divest these? So I was just wondering how your point of view is on those two assets. Thank you.

Georgi Ganev: Thank you for the question. We don't disclose any ideas we're thinking around portfolio composition beforehand obviously, especially when it relates to public companies. But with that said, we've spent quite a little time on that type of thinking. I mean, the majority of our time goes to finding new opportunities to support our companies through the different phases. And that type of support can be extremely different.

So, I mean, in the beginning of a company's phase, when its at venture stage, it's more about being close to founders, sometimes finding new people to do business and so forth, building a strong group of partners and co-investors around the company. When it comes to scaling companies that have come a bit further, it's about helping them with, for instance, an international expansion, right, and finding other new investors that can be part of that journey.

When it comes to mature companies, a different way of active ownership, of course, those companies are autonomous to run their own business. That's something that we would expect for any public mature business. And it's not that Kinnevik is driving the business so to say, but there we can actually provide with a long-term commitment allowing the company to execute on their strategy for the long term. That's the major kind of value add that we can provide. We can also support, as we've seen in M&A deals with Tele2 and the merger with Tele2 and Com Hem, we can support such transformational move for instance.

So that's basically how we think. But I cannot say right now how we look at the portfolio composition. Right now, we think that all of our companies in portfolio makes good sense and they complement each other in a great way.

Christophe Van der Kelen: Okay. Thank you.

Operator: Thank you. We currently have no further questions. I will hand back to the speakers for any final remarks.

Georgi Ganev: So thank you very much for listening and for your questions. Just as a last reminder, we will report the results for the first quarter of 2021 on 22nd April. And last but not least, stay safe now everyone. The pandemic is not over yet. So take care and we'll talk soon. Thank you very much. Bye.

[END OF TRANSCRIPT]