Q1 2020 Results

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Christian Sinding

CEO and Managing Partner, EQT

Thank you and good morning, everyone. Welcome to EQT's Q1 2020 announcement. Today, you are going to hear from me; Kim Henriksson, our CFO; and also Caspar Callerström, our COO. And after the presentation, we will open up for a Q&A.

Now taking a step back, before we start the presentation, we hope you are all well and coping during this challenging period of time. Nobody knows when we will be back to normal circumstances or what the new normal will look like. But one thing is for sure, we can all contribute as humans, as business leaders and also as members of society. And I also want to thank all the persons who are on the front lines of this crisis helping everyone out in this difficult time.

For EQT, this actually means that we keep doing what we do best, which is invest thematically and support our companies to improve and stay relevant for the long term and create value for society. As you know, we are driven by our purpose of future-proofing companies and making a positive impact. And in times of challenges and disruption, we believe this is actually very crucial and we have a real responsibility there.

Volatile Market Environment – Thematic Portfolio Relatively Stable in Q1

So with that, I will start with the formal presentation. So if you see that on page two, then I will start here with some overall comments on the current markets. Certainly, we are in an unprecedented situation. The markets around the globe are quite volatile, obviously coming out of this global pandemic. We have restrictions in many countries that are closed down and with the governments and central banks across the globe taking really strong response measures and helping society cope in this volatile period.

We believe the key is, in this situation, to have a broad stakeholder approach and a long-term perspective. We are trying to be thoughtful, take quick and relevant actions and also to safeguard our values and culture.

Now as with any crisis, there are, of course, also a number of opportunities, including the opportunity to come out stronger for our companies and for ourselves after the crisis while at the same time paving the way for a more sustainable tomorrow.

If I look at the firm, the impact on EQT really depends on the magnitude and the timing of the crisis and how long it lasts. So we are still hoping for the best, as I said last time, but continuing to prepare for the worst. Our business model itself, of course, is relatively strong through its recurring revenue base and the long-term trend supporting our industry.

If I look at the underlying portfolio companies of EQT, all the companies are in some form affected – some very negatively, some in a more neutral way from even positively to a certain degree depending on, for example, our one retail investment, which is quite challenged to a number of digital business models, which are, of course, delivering essential services to society at this point in time. And given our thematic investment strategy and our strategy of future-proofing companies, if one looks at the overall EQT portfolio, it remains relatively robust.

As you know, based on experience from previous crises, we have been preparing our portfolio companies for a downturn for some time. Obviously, we did not know about the magnitude or what was going to happen in the next crisis that we are now experiencing. But the fact that we had these contingency plans in place is really helping us respond faster in all of the companies and make sure that we are handling our businesses, our customers, our employees and all stakeholders in a good way. And we will have more details on the portfolio a little bit later in the presentation.

Now if you look at what we are doing otherwise, together with the portfolio companies, we have actually taken, I think, quite a good amount of actions to help out in the current crisis. On our website, you will see lots of great examples of our portfolio companies contributing locally or internationally to the crisis, like for example, Lima in Italy that has restructured their operations to deliver tubes for ventilators in Italy and lots of great examples like this. That makes me quite proud. We are also doing a lot of things across our offices in our 19 countries where we are present with creativity and empathy.

Secondly, the EQT foundation has announced its first initiative. We have donated from the foundation to the COVID-19 Therapeutics Accelerator and this is launched by, amongst others, the Bill & Melinda Gates Foundation to support research related to developing and scaling up potential COVID-19 vaccines and treatments.

And thirdly, management of EQT has also contributed to substantially improve testing in our headquarter country of Sweden.

Q1 2020 in Short

Investments and Exits

So with that, I will go to the next slide. We talked a bit about our investment activity. Of course, the investment activity level has been slower since the COVID-19 outbreak. In the first half of the quarter, we did several thematic investments including Deutsche Glasfaser in Germany and O2 Power in India, both done in the EQT Infrastructure IV fund. And in total, EQT has invested more than €1.8 billion in Q1.

Furthermore in early April, EQT VIII announced the acquisition of Schülke, which is a leading provider of hygiene and infection prevention solutions. This investment is quite interesting and it is very much in line with our thematic approach, which is guided by the United Nations Sustainable Development Goals, in this case, specifically SDG 3, which is good Health and wellbeing. And this company, of course, now is contributing to society in a very essential way.

We had followed this company for quite a long time and it is very topical now in the midst of the COVID-19 crisis of delivering essential products to hospitals in the German-speaking region around the world. And I think it illustrates our execution capabilities and the fact that we can deliver a solid offer to a seller and help the management come into the new ownership in a good and positive way. So we are very bullish on this long-term investment and are happy that we were able to make that happen during this complicated time.

Value Creation

Now going to our valuations. At the end of Q1, our key funds are down, on average, approximately 5% in valuation versus the end of 2019. And it varies a bit across the funds with EQT VII being the fund which is most impacted among the key funds. We have received a number of questions on our valuations so Caspar will go through that in more detail later in the presentation.

When we look at the expected returns for our key funds, we still expect that they are going to deliver according to plan in terms of multiple of invested capital in Private Equity and in Infrastructure II and IV and above plan in terms of multiple of invested capital in Infrastructure III. And this is the same outlook that we gave in our Q4 presentation.

Nevertheless, it is important to stress that it is very early to quantify the full impact on the portfolio companies in this turmoil. And even though we expect similar end results at the end of the day for the key funds, it will take a longer time, and therefore, will also have some impact on our IRR.

Fundraisings, AUM and FTE

Moving on to fundraising. As we previously announced, the hard cap for EQT IX is set at €15 billion and that fundraising is ongoing. And due to restrictions from marketing, we cannot comment any more on that. As also mentioned earlier, Infrastructure is exploring various alternatives to raise additional capital and now also including starting preparations for Infrastructure V, which could be launched during H2 2020.

Other

Finally, as a firm, we are continuing to build the business. We are now over 700 employees and we are continuing to invest in our business for the future. However, given this uncertainty that we see around us, new recruitments are currently on hold – pause, as we say.

25+ Years of Track-Record and Experience over Cycles

You have seen this slide before but we wanted to take a step back and focus on this that we are on a long-term journey. We continue to have the ambition to grow and develop EQT for the long term. And we have come quite a long way from a Nordic buyout fund to a global diverse and multi-strategy private markets firm.

We also have experience with 25 years of cycles with a number of people at EQT having been here since inception, including Conni, Thomas, Fredrik, etc., and also, Caspar and I having been here since 1996 and 1998, respectively. So we have lived through a number of different disruptions and that is going to help us along this bumpy road that we are on. And it also enabled us to, for example, be prepared early for whatever was coming, as I mentioned earlier.

And if I take a look back during the financial crisis, after that, many competitors actually reduced their fund sizes but we came out of the crisis actually stronger with larger funds than the previous one and also during that time we started our Infrastructure initiative, which is now obviously one our flagship funds. And I think this is a good example of the potential opportunity that can arise from a crisis when you get the right people and the right strategy in place.

COVID-19 – Impact on EQT AB

I think with that, let us go into a bit more on how COVID-19 is impacting EQT. This is on EQT AB first. Certainly, as we talked about, the worldwide spread of COVID-19 has created a global economic disruption and also a lot of uncertainty. So it is hard to predict and probably too early to quantify the full magnitude of the business and economic ramifications. But of course, the duration of the pandemic and the duration of the lockdowns and how we come out of that are key factors. We run a number of different scenarios in these cases.

Fundraising

Let me start with the fundraising side. We expect that fundraisings will take longer and also be more challenging in the current market environment. This is especially true for smaller and newer initiatives where fund investors need to meet with the team, get to know them, do more due diligence, etc. So even practically, everything is a little bit more complicated.

Lower Overall Investment Activity

On the investment side, the pace is also impacted, as I mentioned, and we will continue to be highly thematic and very diligent in our approach. And I think the Schülke transaction is one, which is an example of the types of deals we would be looking to do in this market.

Exits

And for EQT's funds, looking at exits, these are also less likely for most assets until market conditions stabilise again. What happens during a crisis like this is that the bid-ask spread for companies, even high-quality companies, increases and therefore it is difficult to get sellers and buyers to meet. Furthermore, the financing market is also much more complicated to work with during disruptive times.

Now having said that, we have a very young portfolio actually across investment strategies with an average age of our companies of 2.5 years in our key funds. Also, our oldest portfolio company is about eight years old, which is Anticimex in EQT VI, which is a very strong performer. So what is important with that is that there is no pressure on us from our fund investors to sell or make exits during this time.

Carry Recognition

Also, just a reminder, and we come back to that as well, under IFRS, carry recognition will require both an underlying positive development in fund valuations and/or exit of portfolio companies. Kim will cover that again.

Strong Balance Sheet

Finally, EQT has a strong balance sheet, and we have a liquidity position with more than €900 million in cash, which is good, especially from a long-term growth perspective and also for our ability to take advantage of this market to continue to develop EQT and drive strategic initiatives, which Caspar will come back to shortly.

COVID-19 – Impact on portfolio companies

On the portfolio companies, in our key funds, we invest in healthcare, TMT, essential services and essential infrastructure to society as well as industrial tech. And we have a strong focus on noncyclical companies driven by long-term macro trends, secular trends, such as digitalisation, sustainability, healthy living, etc.

Private Equity

So if you look at Private Equity, 90% of our portfolio there is in three core sectors being healthcare, TMT and services. And many of the companies have features such as being an essential service, having quite predictable cash flows and also long-term business models such as, for example, some of our healthcare IT companies like Waystar or Certara.

Venture Investments

If you look at our Venture investments, overall, given that they are all digital business models, many of them and most of them are actually performing quite strongly during this fiscal period.

Infrastructure

In Infrastructure, more than 50% of the portfolio companies there are in fibre optic broadband investments and the remaining are in other essential services and we only have one company in the energy space in that.

Having said this, it does not mean that our portfolio companies are not impacted. Several of them are, of course, highly affected and many of them are affected in some way. So we do estimate an equity need from our support with equity and about 15% of our portfolio companies in the key funds. And we believe, as we said last time, that we will need committed capital of around 5% from our key funds to support our companies. And this is from what we know today.

EQT is Well Prepared for a Downturn

And on the preparations for a downturn, just a couple of more comments. What we did there was really prepare each company in terms of governance, in terms of actions, in terms of working capital, liquidity, etc., to make sure they knew what to do when a crisis would hit. We have also refinanced a large part of the portfolio across the key funds over the past years, removing covenants and pushing out maturities and creating more flexibility for the companies to both grow and develop and/or handle a more difficult period as we are in now. And we do have enough fund capital to support our companies as well as to capture opportunities that might come out of this current situation, including add-on acquisitions.

So given this relatively solid base, we are working also with some new transactions. And hopefully, we will be able to continue to make some investments during this period, even though it is a complicated time. And one of our most active funds, of course, is our Public Value fund, which is investing in the public markets in the Nordic region.

So with that run-through, I will then hand it over to Caspar. And he will continue and we will be back with Kim after that and finally Q&A. Thank you.

Q1 2020 Results

Caspar Callerström

COO and Partner, EQT

Strategy Remains Unchanged – Executed at a Slower Pace

Okay. Thanks, Chris. Next slide, maybe. And like Chris mentioned, reflecting on the current market environment, this pandemic is impacting every business across the globe and EQT is no exception to that. But that said, our long-term strategy remains unchanged. Execution of that strategy may, however, take a little bit longer than we anticipated maybe half a year ago and I will give you a brief update on that and the components.

EQT Growth

So on growth, like we have mentioned before, this is a part of private capital and an opportunity to invest in the market segment between Private Equity and Ventures. It is an area where we feel that there is high strategic logic to us. And given our strong both Private Equity business in the Europe and the US and very high-performing Ventures business, I think we are fairly unique to capture and develop this aspect of the market and we continue to believe so.

So we believe in this strategy and we are continuing preparations, including building equity, including setting the investment strategies and we are in early phases of reviewing this in this strategy. However, this will be done at a slower pace due to the current circumstances. So we do not expect that to be up and running during this year but that gives you maybe a feeling for the timing.

Expand in APAC

When it comes to Asia Pacific, as announced earlier, we opened up our Sydney office in February and Asia Pacific is still a very strategic area of growth for us. Growth in Asia Pacific will take time and it is focused mainly on what we have there on the infrastructure side as well as over time building a stronger private equity business in the existing markets that we have, but also exploring new markets in that region.

Real Estate

On the real estate side, preparations for scaling our real estate business is ongoing but new initiatives will also there take a longer time. What I can mention is that the fundraising of Real Estate II is still ongoing but we expect to have a final close on that during Q2.

M&A

On M&A, although the main focus at the moment is on our current business and current portfolio, the market dislocation and the turmoil that comes with it may present attractive investment opportunities for us over time. So we continue to monitor this and pursue certain ideas in this area.

Credit

On the credit side, as you know, we are reviewing our strategic options when it comes to credit and we are still expecting to revert back to the market before summer on the outcome of that review.

Robust Valuation Based on Multiple Valuation Methodologies

We have received some questions regarding how our valuation process works. So I will provide you with a quick overview and hope to shed some light on that subject.

So our valuation process is robust and consists of several valuation methods based on market practice and IPEV guidelines. I think the three pillars of that would be listed peers, so like normal peer review but also comparable transactions with comparable companies in the private market and various ways of doing DCFs. And typically, there is also a combination of these methodologies used when valuing a company.

The assets that we hold are normally long-term private markets portfolio companies, average holding periods of four to six years where value is created over time. And valuations are normally done with respect to the value of a whole company and not a marginal share in a listed company. This means that the values of a whole company is typically more stable than a typical share price. And valuations are scrutinised from several angles to ensure that we give a fair view with the information known at the time. And as part of that, valuations are also audited on a biannual basis.

So with that, I will hand over to Kim.

Key Data per Q1 2020

Kim Henriksson

CFO, EQT

Our Business Model is Long-Term, Simple and Scalable

Thank you. I would like to start with this page, which I have shown before just to reiterate that our way of thinking about the business remains. EQT is a performance-driven firm, which means that everything we do starts with generating good and consistent returns to our fund investors. And that is as true now as it was six months ago.

So we are convinced that these good risk-adjusted fund returns compared to the alternatives available to our fund investors will drive growth in our assets under management. And growth in our AUM will, as a result, generate income for us – management fees, carried interest and investment income revenues to EQT AB. As you know, the management fees, they are contractually recurring. And the carried interest revenues, they are an integral and essential part of the long-term business model we have. And our cost base is mainly our people and other costs driven by the number of employees.

Value Creation Remains Relatively Stable Across Key Funds

So value creation remains relatively stable during Q1. And as mentioned, on average, the like-for-like value decrease during the quarter is approximately 5% but of course, it differs across funds. So while realisations, exits are expected to be delayed and take longer in the current market environment, the long-term value creation expectations remain and all key funds remain at least on plan while Infrastructure III continues to remain above plan. And as a reminder, the way we have defined on plan is as a gross MOIC between two to two and a half times for private equity and 1.7 to 2.2 times for infrastructure funds.

AUM in Q1 2020 Remains at Similar Levels as per Q4 2019

Our AUM is largely unchanged from Q4 2019. So also, if you look at it across the last 12 months, which is a more relevant period given our long-term business model, the AUM is largely unchanged. However, during that time, we have increased the AUM with approximately €3 billion whilst also exited companies in older funds where the fee base is the invested capital.

And again as a reminder, our definition of AUM is such that only assets that are fee-paying are included in the AUM. So there is a solid base of assets under management which provide recurring revenues to EQT AB.

Carried Interest Recognition Update

And that brings us to a carry update. And as mentioned by Chris earlier, carry recognition will require both an underlying positive development of fund valuations and typically also exits of portfolio companies. And I reiterate our rule of thumb here that initial recognition would commence once we have reached a gross MOIC of 1.7 to 1.8 times and including typically a few exits. And this would normally be four to six years after the first investments.

So the two key funds in turn to start generating carry according to IFRS are EQT VII and Infra III. And for EQT VII, our current gross MOIC is 1.6 and we have had three exits. And for EQT Infrastructure III, our current gross MOIC is 1.5 times and we have had no exits so far.

So as you have heard, the exit environment is currently not as supportive as in the beginning of the year, which we expect to impact the timing of recognition of carried interest as well. But as per the previous slide on our expectation for the funds, we are still on plan or above plan to reach our gross MOIC targets. So this is a delay compared to our earlier plans rather than a change.

So let us just take EQT VII as an example here. At yearend, we did not have any IFRS carry from EQT VII when MOIC was 1.8 times and now it is at 1.6. So like-for-like, the portfolio is down in mid-teens in percentage terms. So in order to recognise carry in 2020 from EQT VII, we would require both some exits and an increase in value to more than compensate for the recent reduction. So everyone can draw their own conclusions from those facts.

Number of Employees

As before, the headcount of EQT is a reasonable proxy for our cost base. We have, during the quarter, added a total of 25 FTE plus, as we call them, and are now at 730 FTE plus and 675 FTEs as of the end of the quarter. As mentioned earlier, currently, the hiring is expected to take longer and we have also actively decided to pause most recruitments unless they are highly strategic and in line with what Caspar mentioned here on our strategic ambitions. That said, during H1 2020, we expect the number of FTEs to increase still because it includes signed candidates that are expected to start during this period but after Q2 at a much slower pace than at the beginning of the year.

With that, I would like to hand back to Chris for some closing remarks.

Closing Remarks

Christian Sinding

CEO and Managing Partner, EQT

Financial Targets and Dividend Policy

Thank you, Kim and Caspar. On the final page is our financial targets and dividend policy. And I would like to highlight the bottom of the page first. These targets should be considered over a fund cycle so they are long-term targets.

Growth

And starting with growth, our target is that our total revenue growth will exceed the private markets' long-term growth rate.

Profitability

Our target on profitability is that we expect our adjusted EBITDA margin to be between 55% and 65% over the long term. And that, of course, does include some income from carry.

Dividend Policy

And finally, our dividend policy is to generate a steadily increasing annual dividend in absolute euro-denominated terms.

So with those final comments, we will open up for the Q&A.

Q&A

Magnus Andersson (ABG Sundal Collier): Just on the fundraising, you say that it might take longer in this environment. I was just curious, is it primarily the fact that you are not available to have physical meetings, which you alluded to in some smaller strategies, for example, that they have to meet the investment team, etc.? Or is it also allocation decisions among your LPs and general uncertainty? Can you rank the factors so that I understand what is really driving this?

Christian Sinding: Yeah. I like your question. I am not going to rank it for you but you answered it yourself. It is all the above. It is the practicalities of having to do due diligence on EQT remotely rather than being able to meet in person. So that means things take a little bit more time. Now, we have a strong digital setup. We are completely in the cloud in everything we do from our operations to our deal making. So that is facilitated but it is complicated anyway.

And then, of course, in the market, as has been reported on in also some of the private equity press, LPs are – depending on their portfolio and their strategies – also sometimes taking a little bit longer to take decisions or reallocating some of their capital, etc. So all these elements together are contributing so that the fundraising takes longer.

Magnus Andersson: Yeah. Okay. And then I must have missed you, Caspar, just on slide seven there. You were talking about EQT growth and these continued preparations but with a longer horizon. Did you indicate that you would not do any fundraising, most likely not during the remainder of 2020 or – because I did not hear you?

Caspar Callerström: What I said was that we do not expect this to be up and running during 2020.

Magnus Andersson: Okay, okay. Thank you. Yeah. And just on slide six there, you said that you talked about roughly 15% equity need in portfolio companies in the key funds. Is that during 2020 or how should I think about that? Or is it now immediately or?

Christian Sinding: Yeah. Well, what we do is we run different scenarios. We run the, call it, a more positive scenario, kind of a median scenario and then we run a real downside case for all of our portfolio companies. This number is based on a median scenario, if I can put it in those terms.

Magnus Andersson: Okay. Okay. And then on the 5% need required of your dry powder, that conclusion, how did that look, for example, in the previous crisis some ten years ago?

Christian Sinding: That is a complicated question.

Magnus Andersson: Can we draw any parallels or?

Christian Sinding: It is very good but, of course, EQT is very different, that is why. We, of course, have in terms of the key funds, we also have our Infrastructure funds, which are large and stable as well. But I would say generally – maybe Caspar wants to add a comment – but generally, we are in better shape now than we were at the previous crisis because as I commented on in my part of the presentation, we have been really working with our capital structure to stretch them out to create more flexibility, less covenants, more liquidity, etc. So we have longer runways before we need to bring in new sources of capital to the company, everything else equal. Of course, the crisis is very different. But other than that, I think we are in better shape. And yes, anything to add, Caspar?

Caspar Callerström: Yeah. I think maybe just to add that the portfolio composition back then was very different. We had much more concentration in certain portfolios. And therefore, in certain funds, we basically did not have the capital available to save all the companies in that particular fund. I mean, more or less, we are not at that situation now so it is a bit different. In terms of the capital need, I would not know if it is, on average, similar or less now. I would guess it is less, but I would not – yeah.

Magnus Andersson: Okay. And then just, finally, you were talking about in connection with the Q4 report of a potential bridging of the Infra IV. Is that still going on, still valid? Or any update there? Or bridging, extending the…

Christian Sinding: Yeah. What I can say is that we are working on continuing to work on bridging but we are also starting to prepare for the fundraising of Infra V and more details I cannot give you right now because of the restrictions that we have.

Magnus Andersson: Yeah. Okay, that was all for me. Thank you.

Elizabeth Miliatis (BofA Merrill Lynch): Good morning and thank you for taking my questions. I have two. Firstly on EQT IX fund raise, when you are talking about it taking longer based on your discussions and your feeling of the market, do you think it will be maybe one month longer or twice as long? If you get a sense of exactly how much longer, that would be awesome.

Christian Sinding: Yeah. Thanks for the question, Liz. I am not going to give a timeline because I am not allowed to talk about fundraising in and of itself. But it is taking a longer time. Having said that, I can flip it around and say we started preparations early last year, the middle of last year. And I think we started talking about it in the market during the fall. There is a long premarketing period. We formally started the fundraising in January. So we have done a lot of work on it ahead of the crisis, which, of course, is beneficial in terms of driving towards the close.

But, yeah, I cannot say anything else other than that putting everything together versus a normal period will take a longer time. And there are some investors that just need that extra time to commit. But we are well prepared and well into the process.

Elizabeth Miliatis: Okay. Thank you. And then secondly on valuations and the gross MOICs on the flagship funds, some came down. I was a little surprised that some did not come down further. And I appreciate your comments about it is a very resilient, thematic portfolio. But just if we could get into the nitty-gritty of the valuations if possible a little bit more, do you think we could see potentially a bit more pain on gross MOICs maybe in Q2, obviously without guiding us but a little bit more pain as we understand this crisis a little bit more and as things develop? Do you use forward or historical earnings when you are looking at valuations?

And then thirdly, you mentioned that transaction multiples are one method that you use when valuing assets but I suppose transaction multiples are almost irrelevant at the moment. So are some of the valuations in the current portfolio still using that method or is it all based on earnings or DCF?

Christian Sinding: Caspar, will you take that one?

Caspar Callerström: Yeah, with many questions. I do not think we would go into the depths of the granularity of the valuation of each fund. But what I can say about methodology is that I think we are using the methodology that I described including comparable transactions. It does not mean that we are not going to sell these assets today. We are going to sell these assets in a sort of normalised environment. And I think having comparable transactions will always be a part of the toolset when doing valuations. And as I pointed out, the pricing of a marginal share is maybe not the best proxy for valuing an entire company. So we use a combination of these methodologies throughout the portfolio.

Elizabeth Miliatis: Okay, thank you. And just a follow-up question there. I know you cannot guide but do you think that there might still be some more pressure on valuations?

Caspar Callerström: I think that the valuations that we do, we do for quarter end, and that was what we believe to be the true and fair value at that point in time. It is very difficult to say what that picture will look like three months down the road or two months down the road but it is not that we take this in steps and that we foresee further development. I think it is fair to say that we have taken quite large in some assets, quite large write-downs of values, depending on quite a large impact of this current situation whereas other companies have been less affected.

Now if it turns out that some of the companies that have been less affected are more affected, we will obviously have to bear the consequence of that. I think that goes for the stock market as well. So I do not know is the honest answer to that. But what I do know is that it is sort of our best effort when it comes to the Q1 where we were at 31st March.

Elizabeth Miliatis: Okay, thank you. I very much appreciate the colour. Thank you.

Arnaud Giblat (Exane BNP Paribas): Yeah, good morning. Arnaud Giblat from Exane. A few questions, please. Thank you for the slide on the appendix regarding how management fees are earned. I just want to clarify one point. If I understand that well, the only two driving elements to determine management fees on Fund IX will be the timing of the initial close and the amount raised by the end of the year. And the timings of the second, third closings in between do not have an impact on the management fees in 2020, is that right?

Christian Sinding: Kim?

Kim Henriksson: Chris, may I comment on that? With regards to the size, for 2020, the management fees will be dependent on the size of what has been closed out during 2020 because that will then be – there will be a catch-up for that during the course of the year.

And with regards to the timing, it is a question of when the predecessor fund is closed for investments and the new fund is opened for investment. That is the timing from when the management fees will be calculated.

Arnaud Giblat: That is great. Thanks. And secondly, I was wondering on the corporate M&A side, you talked perhaps of opportunities coming from the dislocation. I mean, surely, I assume any potential seller will be thinking long term as well. Do you think that there really have been some big marked changes in potential valuations for some potential targets you might be looking at?

Caspar Callerström: I can take that one.

Christian Sinding: Go ahead, Caspar.

Caspar Callerström: Yeah, I can take that one. We were not really alluding to that we will be able to do sort of bargain buys. That is not really what we are saying. Maybe it came out a little bit wrong there. So I mean what we are saying is that, and my view here is that I think tougher times will also make it even more advantageous and important to be part of a larger group than to be sort of a standalone smaller, maybe more local player. I think the advantages of being in a larger group with everything that comes with that will be highlighted even more. And therefore, I think these tougher times will maybe drive some of those founders and owners to pursue M&A more than they would have done before.

Arnaud Giblat: Great, thanks. And I had a last quick question on new deals. Could you comment a bit more about what funding terms are available to do new deals? As I understand, the credit market spreads have blown up and haven't come back in yet. Is that something you might be experiencing on new funding?

Christian Sinding: Yeah, I can take that one. It is complicated. If you are looking to do a large syndicated transaction today, that is very difficult. The secondary market is trading depending on sector between 80-something cents on the dollar and maybe 95 cents on the dollar still and still volatile times. So that is a bit more but that is a very complicated funding source right now and probably unlikely in the short term unless there is a very, very unique situation.

But having said that, some of our relationship banks are strong and supportive. And also like we did in Schülke, the private debt market is very active. So the private players are also available to support the financing. But if I give the example of Schülke again, the leverage that you would achieve and actually want to have in the kind of market we are having today is also lower. So quantum is lower, the financing structures are more conservative and the sources are slightly different or are clearly different than in a typical market where you would have high yield and syndicated loans being more available.

Arnaud Giblat: That is great. Thank you very much.

Peter Kessiakoff (SEB): Yes, thank you very much. A lot of good questions have been asked already but a few perhaps detailed ones and perhaps just a follow up on one of the last questions asked on the funding markets. How vital is it for you for the kind of the market of larger syndicated loans to be open in order to kind of conduct the strategy that you are aiming for?

Christian Sinding: I would say for the very, very large transactions, that makes it more complicated right now. But for the medium-sized transactions like Schülke was close to €1 billion. There is no problem to or no problem – it is clearly more complicated but it is possible when you have close relationships and you work together with your financing partners.

And EQT has a lot of experience. We are coming from a different kind of financing structure historically where we very often worked with our relationship banks, used what we call club deals with a number of relationship banks coming together to support the financing of a company and we would commit more equity capital typically in a market like today. So there are other solutions. But for the very large deals where the syndicated loan market is necessary, that will take a little bit of time.

Peter Kessiakoff: Okay. Then I just had a question on the equity injection that you mentioned earlier and what you have seen so far kind of. When that is done, does that have any kind of tangible impact on the valuations that you will set for the individual companies? Or is that completely unrelated and you have already taken the equity needed into account as it looks now?

Christian Sinding: Caspar?

Caspar Callerström: Yeah. Typically, what you do is when we support this new company with equity, it is not always in the form of equity. So we can do an injection. It could be a loan to the company. But if it is equity, it is typically then done as any normal company, i.e., you issue shares at the current market value. So it should not affect the market values that we have here, which means that if we have a company that has not done an equity injection, it will be done at the current value and the new money in will be valued at par at that point in time. So I do not know if that answers your question.

Peter Kessiakoff: Okay. All right. But does that mean then that the gross MOIC comes down or?

Caspar Callerström: Well, I mean, again, we said like we are talking about less than 5% of the fund capital. But obviously, the money that comes in is valued at 1.0, right, because it is valued at par. And so there would be a slight dilution mathematically. But in the grand scheme of things, it does not really have a big impact.

Peter Kessiakoff: Of course. Just trying to understand the dynamics there. Then just some detailed questions. Just on the bridge on the infra side, I think previously you mentioned could it be that maybe 10% of the ambition of kind of the upcoming infra funds or something similar, which would pretty much result in a bridge amounting to maybe €1 billion to €1.5 billion, if I remember correctly. Has the size of it changed given the current environment or is that unchanged?

Christian Sinding: Yeah. I do not actually want to comment on that since we are right in the middle of the fundraising process. What I can say is that EQT Infrastructure is 70% to 75% invested and there are two alternatives, which can either be complementary or you choose one of them and that is the bridge and/or starting the fundraising of Infra V. And depending on timing of investments and the timing of the fundraising processes of those two, we will decide which way to go. So no decisions have been taken yet. Therefore, I cannot comment in more detail.

Peter Kessiakoff: Okay, thank you. I will just shoot two quick final questions then. The first one is, Kim mentioned in terms of the pause in FTEs but you were still having growth in FTEs during Q2. Is it possible just to give a number on how much FTEs will increase during Q2?

Kim Henriksson: Well, it is a net number, of course. And one element of that, which we do not know or one element is unclear, which is how many will leave, etc. But if you assume that the pace during Q1 continues still during Q2 because anyone who starts in Q2 will have been signed prior to the pause, that is a fair assumption.

Peter Kessiakoff: Okay. You know what, I think I will stop there. So thank you for that.

Jakob Brink (Nordea Markets): Thank you and good morning. Sorry, I just want to come back one more time to Infra V. I think, Christian, in your preliminary speech, you mentioned – just looking at the live script here – you mentioned something about you were in preparations for Infra V and it could be launched in the second half of the year. So just to understand exactly what that means, so you are now in preparations or will you be in preparations end year? And when you start to launch the fund, does that mean to launch fundraising or does it mean to launch investments?

Christian Sinding: Good question. So right now, we are in preparations. So we are starting to prepare. And we may launch the fundraising in the second half, which would mean the formal launch as we did for EQT IX in January. That same type of launch could happen in the second half of this year. So that is how I would answer that question.

Jakob Brink: And then fundraising, just please remind me how long has that taken in sort of periods like this typically or historically?

Christian Sinding: Yeah. That is a good question, actually. I would say looking at the market and looking at EQT, in a very strong market, fundraises take six to eight months, something like that. And in a weaker market, they might take up to 12 or something like that. So this is not an exact science and it depends on a number of different factors but there we are talking about several additional months.

Jakob Brink: Okay. Thank you. That is very clear. And then on EQT VIII, you are 70% to 75% invested by now. Again, as you have pointed out a few times, there is not so much deal making going on in these markets. And I guess you need to go to, is it 85, 90 before you would launch EQT IX? That is correct, right? So it is basically you need to invest – sorry.

Christian Sinding: Yeah, no, I understand. Go ahead. You can finish.

Jakob Brink: No. So basically, just if you are at 70%, 75% now and you need some 15 percentage points extra, that would be €1.5 billion. So when do you think you can find assets to buy worth around €1.5 billion? How long time will that take in these markets?

Christian Sinding: Yeah. It is more dynamic than that. Seventy, 75%, given that we have also now signed the deal for Schülke, we are very much in the higher end of that range. We have 15, 16 portfolio companies, something like that in EQT VIII and a number of them are doing add-on acquisitions. And therefore, typically, in those portfolios where we have a lot of add-on acquisition potential, then we close the funds when they are somewhere between, we say, 80 to 90, but it is probably closer to the 80% to 85% type of level for those funds that have a lot of add-on acquisitions. So that is why we say 80 to 90. It depends really on the portfolio constructions and the opportunity to build on the current businesses that we do own.

So we expect to do, let us say, one or two more new investments in EQT VIII. And then thereafter, we would start investing for EQT IX. And of course, it is very difficult to speculate on when that will happen.

Jakob Brink: Yeah. I understand. Thank you. And then the last question from my side. On the, I think, in the March call you did, you mentioned that you were under no pressure to start selling assets in these markets because you had strong IRRs. Could you maybe give us a bit more flavour on how a long time can you actually wait before you need to start thinking about selling assets?

Christian Sinding: Yeah, good question. Our fund structures are ten years plus two years of extension. And then you can even extend beyond that in certain circumstances if it is required. So we have plenty of time to work with our portfolio companies. The oldest fund that we have a couple of companies left in is EQT VI, and that is a 2011 vintage. So then we are up to the end of 2023 before any further extensions. And as you know, from an EQT AB point of view, EQT VI is relatively small. So for the rest of the key funds, we have many, many years to go. So we are very comfortable with that situation.

Jakob Brink: Okay. Thank you very much.

Roberta De Luca (Goldman Sachs): Hi, good morning. Thanks for the time. I have a few questions. The first one is I would like to understand maybe a bit more the impact of this lower realisation of EQT VI on kind of second derivatives. First, I remember at IPO, you mentioned that for EQT IX, you were kind of accelerating the – well, you kind of needed the resources from EQT VI. So I just would like to understand whether any delay in this actually means that you would not have the resources for the deployment of EQT IX? And then on the other side, on the fundraising, if any capital from EQT VI needs to be freed out before clients can commit for EQT IX.

Christian Sinding: Yeah. It is an interesting question. The remaining capital in EQT VI is relatively small. I do not have the number right in front of me. Maybe Kim can bring that up but we have already delivered a closer to two times the capital from that fund to our investors. So the remaining investments there, we do not expect to have a material impact on the fund performance and, therefore, also is not really connected to EQT IX. So yes, that is how I would answer that question.

Roberta De Luca: Okay. Thank you. Then maybe you can try to help us understand how we can bridge the data that you give. So you said that about 15% of the companies need capital and you only have 5% and that is based basically on your, let us say, base case scenario from what I understand. But then you have about 5% negative impact on the portfolio. And obviously, I know you would not comment on competitors but just to give you a bit of background, I am sure you have seen peers reporting earlier in the week. They have reported about more than 20% negative impact. So the 5% negative impact strikes as relatively aggressive but maybe there is something that you can highlight as to why it is only 5%?

Christian Sinding: Caspar, do you want to take that one?

Caspar Callerström: Yeah. I think I am not sure if we compare apples-to-apples here, but basically, so when we say 15% of the companies will require capital and up to 5% of the capital in the fund will be used to do that, that was one thing.

The other thing Chris mentioned was that in terms of valuations, we are, across the key funds, approximately 5% down in Q1 versus Q4. And I was then interpreting your question as some of the peers have bigger drops in terms of valuation. Of course, I cannot really comment on their portfolios. But what I can say is that if you look at our portfolios and you look at the exposures we have in industries, I think we are, compared to the market so to speak, underweight – some energy sectors, some retail sectors, etc., which will have more significant drops. We have our small share of those as well, and there, we have had significant drops in values. But since we have fewer of those assets, the impact on our overall portfolio will be smaller.

Roberta De Luca: Okay. Yeah, of course. I mean it is not apples-to-apples, but still thinking that 15% of the company needs capital and the valuation downside is only 5% is striking but I understand it is not apples-to-apples.

One last question, if I may, maybe specifically on EQT VI again. The negative impact on the MOIC there is relatively low. But looking at the companies you have there, there are some companies which I would expect to be impacted like Nordic Aviation Capital or Flying Tiger. Is there anything specific that you can say about the performance of these companies?

Christian Sinding: Well, we do not comment – yeah. Go ahead, Caspar.

Caspar Callerström: Go ahead, Chris. Sorry, you go ahead.

Christian Sinding: It is okay. It is yours.

Caspar Callerström: No, I think we will not comment on individual companies. But of course, I mean, the travel sectors and the retail sector are sectors that are badly hit and that is also reflected in the valuation of companies in those sectors across our portfolio.

Christian Sinding: I could just add to that. Like I said earlier, EQT VI is a fund, which is by far, the majority companies have been realised. So the remaining capital in that fund is relatively small. Therefore, any changes in valuation of that remaining small amount of capital does not have a big impact. That probably explains page 11 a little bit.

Roberta De Luca: Thank you very much.

Gurjit Kambo (JP Morgan): Hi, good morning, gentlemen. Just a couple of questions to follow up. Firstly, in terms of the fundraising, potentially launching the Infrastructure Fund V in the second half, I think previously you had sort of indicated you would not really want to be launching two funds at the same time to just really understand why you would be prepared to do that. Have you got the capacity to do that? That is the first one.

Secondly, just on sort of new growth initiatives, the three ventures and public investments you have mentioned in the past. Just are you still on track to look at investing in those areas?

And just on secondaries, are you seeing bigger opportunities in the secondaries market? I would have thought that would be quite interesting at this point.

And then last one, can you just remind me what the dry powder roughly is in the business at the moment? Thank you.

Christian Sinding: Thanks, Gurjit. I will take the first couple of ones and then Kim can take the dry powder question.

So the fundraising point, as we talked about, what we did not want to do was to – we preferred not to raise Fund V for infra and Fund IX for equity at the same time. That would have been the same time; would have been launching in January.

But now, as I explained earlier in the call, we have come quite a long way on our EQT IX fundraising. So therefore, we are ready. We have the resources. We have the capabilities to start preparing for Fund V. They basically become sequential or as close as sequential as you can get and not completely parallel. So hopefully, that clarification…

Gurjit Kambo: Yeah.

Christian Sinding: And then Ventures and Public Value. Ventures is on their second fund, which we raised last year. And the first fund is continuing to perform very well also during this time, as I mentioned, because of their digital business models and really investing with future themes. A lot of those themes and trends are being accelerated now in the crisis. And we also believe that they will – now those trends that were existing before the crisis – well, they were relating to sustainability or digitalisation or whatever it might be – those are going to be accelerated after the crisis and others will also be accelerated maybe in a more negative way, possibly relating to oil and gas, etc. But anyway, so Ventures is very thematic and the investing in that world.

Public Value also now has been investing for more than a year and it is the only fund that we have which is an open-ended fund. It is kind of a hybrid between a hedge fund structure and a private equity structure, a long-term commitment that is open-ended. And they are, of course, quite active in the market now and looking to partner with interesting companies.

On the secondaries, we do not have a secondaries business, if you mean sort of actual secondary buying, secondary portfolios, etc. If you are thinking of secondary buyouts, we are, of course, always looking at all sources of deals, whether they are from private equity or families or public to privates or whatever it might be. So I do not expect there to be any particular – any one of those areas being more active than another. It is really case-by-case, I would say.

And Kim, maybe you can talk about the other question on capital.

Kim Henriksson: Yeah. With regards to dry powder, the information we would typically give is that we are 70% to 75% invested in the key funds that we are currently investing out of. And we have also said that we have sufficient capital to support the companies that need it up to the 5% that we have said that we may need in total.

Bruce Hamilton (Morgan Stanley): Hi, good morning guys. Thanks for taking all the questions and thanks for the colour. So just two for me. One, just thinking about the topic of sort of government coronavirus aid. Obviously, there has been a bunch of press reports in the US saying that private equity would not have access. But in terms of how you think about government aid, is it completely academic because you would never take it because of the reputational hit? Obviously at the moment, your portfolio, it sounds like you are pretty confident with the dry powder. You can support the companies you need to. But I am just interested in how you think about kind of that topic and whether the industry as a whole will get access?

And then, secondly, on rather than specific fundraising of your funds but I guess in conversations with LPs, is there any change in their thinking around allocation? Again, anecdotally, I guess, because of denominated disruption in parts of the public equity portfolio and/or because they have been drawn on commitments as PE firms have looked to support portfolio companies. Is there any sense that there may be a reluctance while that growth trend changes? Or is it just a pause and then we sort of return to the allocation story as people need to make up the unfunded pension liabilities, etc.? Thank you.

Christian Sinding: Thank you. When it comes to government support, it is a very complicated question and we are, of course, primarily active in Europe. Talking a little bit about EQT, we are regulated in the EU. We have a license to operate here. We are actually operating onshore as well. As you know, all of our funds are onshore here in the EU and we have local offices with people on the ground in almost every European country or at least in many European countries. So that is a little bit of background on EQT.

What we think is that we are all in this challenge together. These are difficult times. Our goal is to help our companies in the best possible way we can. And thinking about that, we need to be a responsible owner but we also have a fiduciary duty versus our investors. If you think about who are the investors in EQT's funds, there are pension funds and insurance companies, life insurance and these kinds of things, from around the world.

So the owners of the companies that we are talking about in private equity, it is not EQT that owns these companies; it is actually our investors who own the companies. We are managing the companies on their behalf. So we believe that if there is a situation where we are supporting a company and the banks are supporting a company and the government also would be a part of supporting that company, we think that is completely appropriate.

Bruce Hamilton: Okay, thanks.

Michael Werner (UBS): Thanks. Mike Werner from UBS. Thank you for all the answers. Just maybe a follow up or two. I guess any colour as to why the quarter-on-quarter marks in EQT VII were more negatively impacted than some of your other funds? Was this broad based amongst the portfolio of companies within EQT VII? Was there a particular company that saw maybe a sharper mark? That is one.

And then second, you noted how with Metlifecare, you are intending to cancel that transaction. Is there a risk of any other transactions that you have announced that may not see completion given any material adverse impacts? Thank you.

Christian Sinding: Thanks. Caspar, will you take the first one?

Caspar Callerström: Yeah, sure. I can do that. I think when it comes EQT VII, and again, I do not want to go into specific portfolio companies but it is really the portfolio composition there and the majority of that write-down actually comes out of one particular situation. So that is the background. There is nothing else. If you look at the sort of overall portfolio, it looks basically similar to others. It is just that, yeah. And Chris?

Christian Sinding: Yeah. First of all, there are not that many situations where deals are pending right now. So that is not really a question that we expect to see broad based. We do not have any other public-to-private situations that we are working on either or that is in the market now. Working on, probably yes but nothing that is in the market right now. So that situation, I would say, is a very particular situation.

Michael Werner: Okay. Thank you very much, guys.

Christian Sinding: Thank you very much. We appreciate that everybody joined and we appreciate a lot of good questions today. I hope it has been helpful and look forward to seeing you next time. Thank you. Bye-bye.

[END OF TRANSCRIPT]