Q2 2020 Results Presentation

Thursday, 16th July 2020

Executing on Our Strategy

Christian Sinding

CEO and Managing Partner, EQT Group

Opening remarks

Good morning, everyone, and welcome to our Q2 2020 announcement. Today, you're going to hear me and Kim Henriksson, our CFO. After the presentation, we're going to open up for a Q&A as normal as well.

First of all, we hope you're all well. Of course, we are still in the middle of the pandemic that's ongoing in many places around the world, although many of the geographies where we're investing are now actually coming out of that crisis.

We, as everyone else, don't know when things will go back to normal circumstances or exactly how normal will look. And given that the buyers continue to be present, we remain watchful. Clearly, the – you know, COVID-19 continues to affect us all, one way or another. However, this also gives us an opportunity to contribute to the new normal – both as humans and as business leaders and also as investors and owners.

Looking at EQT, this means running our business in a business-as-usual type of way as much as we possibly can, but also really taking this opportunity to build and strengthen the firm for the future. We are delivering our defined strategy and our priorities as a firm, and we continue to invest thematically and to support our companies to stay truly relevant for the long term.

Internally, we're trying to capitalise, together with our portfolio companies, on the creativity that comes with this crisis as well, and on how to seamlessly work remotely across offices with our customers, with our companies, and helping our companies do the same. And we know now from this experience that we can actually really interact with full quality and energy without travelling as much as everyone else has done in the past. And this is a good and profound impact on how we work and also how we take care of our planet, but we also need to continue to stay on the forefront and, you know, have the right technology and the right approach, like we have had now with our digital Annual Investors Meeting and our Annual General Meeting as well – both of them which went quite well. And we'll continue to improve as we learn more and more about using this new type of technology for everything we do.

As you know, we're driven by our purpose, and that purpose is future-proofing companies and making a positive impact. And the key for us is just to have broad stakeholder approach and a long-term perspective on the future. This includes, of course, safeguarding our values and our culture, which we've been working hard to do during this time when we are not so much together. And it also means staying disciplined to make sure – and strong to make sure we can come out even stronger and even wiser after this crisis, as we did after the other one – the financial crisis some years ago.

Executing on our strategy: Overview

Now we can move over to the first page of the presentation – the Q2 – sorry, this slide. There we go. It's called Executing our Strategy. What I wanted to say here first was that we are – this is our summary Q2 announcement, which means that we are going to present our financial statement – full financial statement on 20th August, and today is our summary. So it's going to be relatively short and sweet.

Investments and exits

When it comes to our strategic priorities, first of all, we continue to secure good deals and exits in this complicated market, although we're doing that at a somewhat slower pace, as I've indicated before. We'll come back to more details on that later.

Fundraisings

Fundraising is actually going relatively well. Things are taking a little bit more time, but there is good fundraising momentum. EQT IX has been running according to plan, as you had seen from our announcement, and we have also launched recently Infra V fundraising a little bit ahead of schedule. To be clear, the launch of that Infra V fundraising means that we are actually not going to pursue the bridging option – what we call the PIV – but rather go straight into the fundraising and investing of Infra V. When it comes to our new investment strategies, we're continuing to build our plans to create the growth investment strategy and also our Asia-Pacific strategy.

EQT Credit

With regards to EQT Credit, we've – we have found a new home for that business, and that will be joining Bridgepoint, which we think is very good – a great solution for all parties involved, including our customers, and we'll talk a little bit more about that later in the presentation. Finally, we're continuing to pave the way for a more sustainable tomorrow with our focus on diversity and climate.

Next slide, please.

Q2 2020 in short

Investments and exits

On page 3 here, our investment activity has been slower post-COVID-19, but opportunities still exist and we see that activity is picking up again, and you've seen that from our announcements. We remain really faithful to our thematic investment approach. And in mentioning a few investments that we made over the last months, I'll start with Schülke Healthcare Business, which is really spot-on during this crisis. The company has performed very well. In the EQT VIII Fund, we have Freepik Technology in EQT mid-market Europe. We've done a large add-on acquisition in SUSE Software with the – with the add-on of Rancher Labs. And on the infrastructure side, we entered into a new scheme implementation agreement to acquire the retirement village company, Metlife Care, in Infra IV, and we're very happy to have reached an agreement there with the shareholders.

In total, EQT has invested €1.3 billion in Q2, of which 0.4 billion was within the Credit business line. Post-period, we have invested or committed several additional billion euros. We'll get back to more on that in the next announcement. On the other hand, with the acquisition of IFS and the exit of IFS from EQT VII, we term it or – we terminated the commitment date of EQT VIII and allow – started the commitment period of Fund IX, which means Fund IX as of 14th July has started generating management fees. The remaining funds in EQT VIII will be used for add-on acquisitions and strategic capital injections over time. On the infrastructure side, Infra IV is also quite close to being fully invested.

Floating back to exits, like I said, activity has been lower, but we've actually done some quite nice exits over the, you know, last quarter or so. Most recently, IFS Software, as I said, from EQT VII. And during the quarter, we exited both Hector Rail from Infrastructure and we IPO'd Misty[?] in Q1 in Finland, and that was from the EQT Mid-Market Fund.

Value creation

When you look at the expected returns for our key funds, looking forward, we continue to expect that they will deliver according to plan in Private Equity and in Infrastructure II and IV. We expect that Infrastructure III will continue to deliver above plan. However, as we mentioned before, the value creation of our portfolios will take a little bit longer, and it means also that the exit pipeline is continuing to be skewed a little bit beyond this year into next year later.

Looking at valuations versus Q1, they have been quite resilient, with several increases in key funds during Q2. And again, that's really connected to our thematic investing strategy and the sectors and types of companies that we're invested in.

Fundraisings, AUM and FTE+

Moving over to fundraising in a bit more detail, our main focus now is raising Infra V and finalising fundraising in EQT IX, as well as our continuous fundraising in public value. As previously announced, the target size for EQT IX is €14.75 billion, and the hard cap is 15 billion. I'm quite happy with the progress that we're making now, and the fundraising is running according to plan. We expect to be materially concluded in the fundraising during the third quarter. Importantly, we see a strong pipeline of thematic investment opportunities to deploy the capital in-year fund as well.

Turning over to EQT Infrastructure V, we announced a target size of €12.5 billion and expect fundraising to take a similar amount of time as you have seen for EQT IX. Finally, regarding EQT Real Estate II, that fundraising was materially concluded as of Q2.

Others

A couple of other things I'd like to mention. One is the ESG-linked credit facility that you probably saw the announcement. That helps support the EQT IX Fund. It's a – quite a large facility, started off at €2.3 billion. It's the first of this size in the global fund financing markets and it's really an integrated – or it's an example of EQT's integrated approach to sustainability and how we're trying to connect sustainability to everything that we do, including how we use the capital markets.

Furthermore, we have our statement of purpose that we launched together with our annual report, and that is really continuing to make a difference. It's our guide star and has been that since – you know, since the beginning of EQT's foundation. We've now strengthened it, firmed it up, and continue to communicate it internally and externally to show that being a purpose-driven firm is really key to long-term success.

We can then go to the next page.

25+ years of track-record and experience over cycles

We've seen this before, but we like to show it because we want to show you that we are on a long-term growth journey and we have the continued ambition to grow and transform and continue to be on the forefront. We are, you know, driving that path forward to becoming a global leader in active ownership strategies in private markets. We have now experience for more than 25 years of various cycles. And we've experienced, of course, a number of crises and bumps along the way, including this year. What we try to do in these circumstances is to learn as much as we can, strengthen the firm, drive the changes necessary to improve, and also find new opportunities, which I'll come back to a little bit later.

Coming out of the last financial crisis – the large one in 2008-2009 – we were one of the few firms that actually came out of that with a larger private equity fund than the one before the financial crisis. And we also were able to start some new initiatives, including the EQT Infrastructure, which, of course, now is one of our flagship funds. And the key behind all that is to keep our culture together and have the right people and the right strategy in place, and that's what we're continuously working on internally.

With that, we can go to the next page on a little bit of the COVID-19 impact.

COVID-19 update: Impacted, but well-positioned

Future proofing: Maximising a company's relevance for the long term

As I said in the beginning, we are impacted by COVID-19, but we continue to be quite well positioned. We're staying – we have stayed very close to our portfolio companies, taking the necessary actions both to help those companies – there were relatively few that were in, you know, real challenge – but also to take advantage of opportunities, including add-on acquisitions and improving on digital solutions and other areas to build the businesses.

And our philosophy - the way we're thinking about it, although many societies are starting to open up, particularly, like I said, in our regions – our core regions, it is still not possible to predict the final economic ramifications of the crisis. So what we're doing internally is continuing to hope for the best, but we are planning for the worst so we are ready for whatever may come our way.

Investment strategy

On the investment strategy side, we've also taken this opportunity to really dig in and make sure that we sharpen our investment strategy for the future, looking at what trends will be accelerated in the positive sense and what trends will be accelerated in the negative sense. What we're trying to look for now in the future is – you know, is continually finding opportunities where our thematic investment approach can work.

Some bullet points there that I can mention now that we're going to be focusing even more on are:

- digitalisation and new ways of interacting and supporting those trends.
- Finding and helping more innovative healthcare solutions around the world. We had made over – quite a few investments in healthcare IT and healthcare solutions. We'll continue to do that across our business lines.
- Strong essential infrastructure is key. You know, how important, you know, the fibre networks of the world and broadband have been during this crisis, for example.
- Clean water is very important. Also, clean energy.
- And then sustainable solutions for a cleaner planet, whether it's environmental technology or similar.

- And finally, as we've seen from this crisis, value chains are being impacted and that will drive change and need for investment – the need for automation, the need for simplification. And we're trying to find investment opportunities behind all of those trends that I just mentioned.

What that means is that, in essence, we are looking to find – we are looking to find companies which can really help create the future, and then thus being – investing with the trend, as we've done since the beginning of EQT's foundation.

EQT

On the EQT side, like I mentioned, a little bit less likely to have, you know, many exits until market conditions improve, although we have been able to execute on some, and there probably will be a few more over the coming six to 12 months.

The bid-ask spread between sellers and buyers are increasing during a market like this. And of course financing is a bit more complicated, and there are certain sectors that are very difficult to get deals done in. But we have a young portfolio across our investment strategies, with an average age of 2.5 years in our key funds. Kim is going to go through the financial effects of the exits in a bit more detail in a few minutes.

Portfolio companies

With regards to the portfolio, we see no change in the estimated capital need for the portfolio companies and our key funds. And to remind you, it remains less than 5% of committed capital, as we also communicated in Q1.

Looking forward, we're carefully optimistic on the current portfolio performance and I gave the indications earlier. The reasons for that again – our thematic investment approach, our preparations for a potential downturn, which – where we ran scenarios for every single company in every single portfolio. And also our governance model, where we will be able to take action and support, you know, all of our companies during times of crisis.

Finally, looking at EQT AB itself, we have a strong balance sheet and we have a strong liquidity position, and we think it's very good in times of crisis like this. Also, it will give us an opportunity to take advantage of this market to drive strategic initiatives, including potential add-on acquisitions.

You can go to the next page. I'll comment more on that.

Executing on our strategy

EQT Growth

Starting with our – on the – you know, on our strategic plan, our growth initiatives. The first one – and we could actually call it EQT growth. This is part of our Private Capital business. It's an opportunity to invest in the market segment between Private Equity and Ventures where we have quite a bit of deal flow. We see a lot of opportunities, but we do not yet have a dedicated strategy for that market. It's really an area of high strategic logic for us, given our strong Private Equity business in Europe and US. And it enables us to use our local-with-local strategy together with – also with our unique Motherbrain artificial intelligence unit to find and help develop, you know, fast-growing companies.

So we think we're going to have a fairly unique and interesting proposition here when that's ready. Our preparations now include keep building up the team, setting the strategy, and also reviewing some transactions. However, we're doing this as a – at a measured pace.

Expand in APAC

When it comes to Asia-Pacific, we're also there firming up our strategy and building out the team to continue to grow in Asia-Pacific. And I think we saw that also earlier this year with opening our Sydney office. And we've also strengthened the team with new hires, as we speak.

Real Estate

On Real Estate, scaling is ongoing. And of course, the Real Estate business is – it's, you know, in varying ways, impacted by COVID-19 as well. We're finding really interesting new opportunities, also a few challenges. But we believe that the real estate space is actually very interesting and attractive for the long term. And here we're continuing to also, you know, build up the strategy, build up a team, to be able to create an even larger and more exciting business.

M&A

On potential M&A, of course, we're fully focused on our current business and our current portfolio and building that, but we are reviewing some attractive investment opportunities and, if any of those materialise, we'll of course keep you informed.

Credit

Finally, when it comes to Credit, we've concluded our strategic review. And like I mentioned, we've – we made an agreement to sell the business to Bridgepoint. We think, you know, Bridgepoint will be a great new owner. Our team is very excited to join them, and there's quite a similar philosophy of investing. And we expect that transaction to be completed sometime in the fourth quarter.

I also wanted to mention on the EQT Foundation, which is the foundation we started when EQT went public. We have now recruited a leader for EQT Foundation to be able to drive our philanthropic initiatives there. And that is Cilia Holmes Indahl, and we welcome her to the team as well.

So with those words, I actually will now hand over to Kim, our CFO. And then, after that, we will round off with Q&A.

Key Data per Q2 2020

Kim Henriksson

CFO, EQT Group

Thank you. Thank you, Chris. Can we go to the next slide, please?

Our business model is long-term, simple, and scalable

Attractive client returns drive growth in AUM with integrated revenue streams and a predictable cost base

So I would like to start with a page that I have shown before 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 good risk-adjusted fund returns, compared to the alternatives that are available to our fund investors, will drive growth in our assets under management. And growth in our AUM will, as a result, generate income: management fees, carried interest, and investment income revenues due to EQT AB. And the management fees are, as you know, contractually recurring. And the carry – carried interest revenues, they're an integral and essential part of the long-term business model we have. And finally, on our cost base, it's mainly our people and it's other costs driven by the number of employees.

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Resilient valuations

So let's move over to value creation. And valuations have – during Q2 have shown resilience, as Chris mentioned, with majority of the key funds having somewhat improved their growth more during Q2. Having said that, we are, in some cases, still below the valuations as of year-end, and this would also impact the – for example, the investment income line in our P&L.

As has been said, the impact from COVID-19 is that realisations are expected to be delayed and take somewhat longer in the current market environment, but the long-term value creation expectations remain. And as you can see here, all the key funds remained at least on plan, while Infrastructure III remains above plan. And as a reminder, we have defined on plan as a gross MOIC between 2 to 2.5 times for Private Equity and 1.7 to 2.2 times for the Infrastructure funds. So, within such range, it's thus possible to estimate what to expect the carried interest to be – not exactly the timing of when carry will be recognised on the P&L, but the magnitude of such a carry.

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Fee-generating AUM remained stable

Our assets under management – they're largely unchanged from Q1. And 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. And during that time, we've had gross inflows from Real Estate II and from Public Value [inaudible] Ventures II. And simultaneously, we've had some additional investments and exits in funds, generating fees on net invested capital, such as, for example, EQT VII and Infrastructure II.

So there's a solid base of assets under management providing recurring revenues. And as a reminder again, our definition of AUM is such that only assets and commitments that are fee-generating are included in the AUM. This means, for example, that commitments to a new fund – they're only included as of the date when we have activated such fund. And as you've – as you saw, after the reporting period, we have now activated EQT IX. But given that this was after the period end, it is not included in the numbers on this page.

And let us come back to the mechanics a bit more in detail later in the presentation. But, as Chris mentioned, we expect the fundraising to be materially concluded during the third quarter, which is also, from a financial reporting point of view, the main driver then.

Next slide, please.

Carried interest recognition update

Timing of carried interest recognition is driven by 'rule of thumb' on initial recognition

A reminder also on carried interest. So carry recognition will require an underlying positive development of fund valuations and, typically, exits in – of portfolio companies. And the rule of thumb is that initial recognition commences once you have 1.7 to 1.8 times gross MOIC is reached and include a few exits. And this would typically be four to six years after first investment.

Status of carried interest recognition

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 1.7, and we had – we've had three – we had had three exits at this point in time. And for Infra III, our current gross MOIC is 1.6, and we've had no exits so far.

Chris mentioned a little bit about the exit environment – that it's somewhat less supportive than in the beginning of the year, and we expect it to impact the timing of recognition of carry as well. But, as per the previous slide on our expectations for the funds, we're still on plan or above plan to reach our gross MOIC target. But a similar message to Q1, that we do expect a delay compared to our earlier plans.

So if we take EQT VII as an example, at year-end, we did not have any IFRS carry from EQT VII when MOIC was 1.8. And now it is at 1.7, so, like-for-like, the portfolio is down around 10 or so percent year-to-date. In order to recognise carry in 2020 from EQT VII, we would require both exits in 2020 and an increase in value to more than compensate the recent reduction. Now, we did see an exit in early July with the sale of IFS, but valuations remain below the level at the start of the year. So, with what we know now, we will not recognise carry on EQT VII this year, albeit we are close to the mark.

Next slide, please.

Number of employees

We have said this before: that the headcount at EQT is a reasonable proxy for our cost base. We have now added 11 FTE+ during the quarter and 36 year-to-date, reaching a total of just about 740 FTE+, of which, then, actual FTEs is about 688. Recruitments are currently taking somewhat longer, and we have also decided to pause recruitments unless they're highly strategic. And this is an important proviso because, even though this approach is still in effect, we are investing in people still. And those investments would primarily be focused on business areas where we are expecting significant inflows of capital in the near term or where we're building a new team.

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Credit business segment exit signed

Strategic options for Credit were reviewed and concluded in June 2020

A brief update on Credit, then. We did initiate the strategic review of Credit, because we felt the growth avenues were further away from EQT's core. And now, by divesting Credit, we are able to focus time and resources on the areas where we can leverage the EQT platform more. So, for example, within Growth or Public Value or the APAC strategy or Real Estate. As you can see in the figures in the Q2 announcement, Credit is included in those. However, in the half-year report due on 20th August, we will report Credit as a discontinued operation and present our financials then with Credit broken out. Let me revert to that shortly.

We have not disclosed the consideration received for the Credit business, but, as you know, the EBITDA for Credit – the segment Credit was €12 million in 2019, and we have received a fair market multiple for this kind of business, so that should provide you with an order of magnitude. If you apply Credit share of EQT's AUM or revenues or earnings to EQT's market value, you will overestimate the purchase price.

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Credit Business Segment's Contribution

So, as an illustration of Credit contribution to the Group in 2019, you can see here that Credit stood for approximately 10% of our AUM, 6% of revenue and 4% of EBITDA. So what we will do now in – starting from the H1 report due on 20th August, is to extract Credit from all lines in the P&L and report only the net income from that business segment, Credit, on one line called Net Income from Discontinued Operations. And the same mechanism is true on the balance sheet side, but the balance effect is fairly marginal for the – for the time being. So I hope that's helpful.

Educational

Fundraising key milestones and management

Let's move to the next slide, which is an Educational slide here. Before I hand back to Chris, I just want to revisit some of the mechanics behind fundraising and management fees, now that we have activated EQT IX after the Q2 period end. And this may also be relevant for EQT Infrastructure V if we close out EQT Infra IV for new investment, given the current pace and percentage investment.

So, step 1 in the illustration here is the last new investment is made in an existing fund. At that point, the investment period is then closed, and fees in that fund are based on net invested capital of closed unrealised investments, i.e. what we call 'unrealised costs' for a six-month period.

So step 3 here, then, the successor fund is activated and fund – and the fees are based on commitments to date in that fund. But importantly, the closed-out commitments by year-end is then the driver for intra-year revenues, because new commitments, they pay fees as if they were committed from first fee date, resulting in what is called 'catch-up fees' or late fees. That is an important element here.

So then the final close of the fund takes place and final catch-up fees are generated from any new commitments into the fund. So, applying this to EQT IX, what is relevant for our P&L this year is what the closed-out amount is at year-end. And, as we have now mentioned several times, we expect the fundraising to be materially concluded by end of Q3. And assuming we then close out Infra IV or close Infra IV for new investment in the fall, which is a reasonable assumption given that the fund is already 80% to 85% invested, what affects our P&L this year is then the amount of closed-out commitments by year-end, and we do expect to close out sufficiently to continue to invest from the Infra business area.

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

Closing Remarks

Christian Sinding

CEO and Managing Partner, EQT Group

Financial Targets and Dividend Policy

Long-term targets unchanged

Thanks, Kim. We're on the final page now, 16, with our – and with our financial targets and dividend policy. Our long-term financial targets are reiterated today and unchanged. They are, first, with regards to growth, we expect that our total revenue growth will exceed the private markets' long-term growth rate. On profitability, we expect our adjusted EBITDA margin to be around 55% to 65%. And our dividend policy is to generate a steadily increasing annual dividend in absolute euro-denominated terms.

Furthermore, like I mentioned earlier, stay tuned for our half-year report on 20th August that will provide more financial details and will dig in a bit further into our business. We look forward to presenting to you then. I'm sure it will still be in digital form, but that's also relatively effective.

So, with that, we're ready for Q&A.

Q&A

Operator: Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to join the queue. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from the line of Arnaud Giblat of Exane. Please go ahead, your line is open.

Arnaud Giblat (Exane): Yeah, good morning. I've got three questions, please. Firstly, I'd like to – if you could help us with your hard cap – your target for Fund IX at 14.75 and the hard cap at 15 billion. I'm wondering what to make of the hard cap, because, I mean, in quite some cases, including for yourselves, you've exceeded that hard cap. So, how we should be thinking about that number right now?

And secondly, you've talked about the potential for M&A and continuing to do bolt-on for your business. What we've seen, at least on the public market for traded – on the traded public markets for – for B firms is quite a significant re-rating of public – publicly listed companies in the US and in Europe. How does that – how are you thinking about valuation in that context? Could we see deals be more funded by – potential deals being funded by equity insurance?

And thirdly, the – could you perhaps give us a bit of a commentary on how you're thinking about debt capital markets? I mean, you mentioned during your presentation that the – it was difficult. How are you seeing things evolve? Should we – should we be looking for a more normalised debt capital market in the months or quarters to come? Thank you.

Christian Sinding: Thanks, I'll take those. On the hard cap versus the target, actually historically EQT has typically actually stuck to our hard cap. It's something we normally don't break through, and that's why we spent some time setting it. And we set it, you know, several months after we set the size of the target fund. So hopefully that answers your question on that one.

On the M&A valuation of add-on acquisitions, it's – you know, valuation's also relative, so it's a complicated question; depends on what type of business you're looking at, etc. What we of course try to do, since we're in a people business, if we were to do an acquisition, we would – we would make sure that a significant component would be in EQT shares, so that we can have the same incentive to continue to build EQT for the long term. Of course, that has to combine with other incentives to drive investment performance, which ultimately is the most important in our business. So, of course, the fact that EQT's share is, you know, valued in a – in a good way means we have some opportunities to do that. But time will tell whether we're able to do an add-on or not. As you know, the M&A markets are fickle.

Then, when it comes to debt capital markets, you know, the debt markets are improving continuously. I think you've seen that in some of the larger deals that were really complicated earlier this year for some of the players in the market. Those are starting to clear. New deals are a little bit more complicated, you know, with large financings. I'd say medium-sized and smaller financings are absolutely possible. And, you know, the financial markets are in relatively good shape, even though, of course, there are a number of companies out in the world and economies that are struggling because of COVID.

So that – so, versus our comment in Q1, the debt capital markets have improved quite a lot. But there are still some – you know, some challenges. It takes a little bit longer time, the fees are more expensive, and the terms are a little bit more – you know, a little bit stricter than they were before the COVID situation came up.

Arnaud Giblat: That's very clear. Could I have a very quick follow-on, just on infrastructure? So your Fund IV is nearly fully invested; you're raising Fund V – that may take up to six months. What happens in the event you find a really attractive infrastructure deal to do in the coming quarter?

Christian Sinding: Well, the way it works is that we – you know, we activate a new fund when we have had a close on a certain cap – you know, on a capital commitment in that fund. So we – and we keep the previous fund open until that's the case. So, typically, it's seamless – a little bit like you've seen between EQT VIII and EQT IX.

Arnaud Giblat: Okay, thank you.

Operator: Thank you. Our next question comes from the line of Liz Miliatis of Bank of America. Please go ahead, your line is open.

Elizabeth Miliatis (Bank of America): Good morning, and thank you for taking my questions. Just two really quick ones. Firstly, on carried interest, I mean, it seems like there won't be that much recognised for 2020, particularly with your comments surrounding EQT VII. But in 2021, are you thinking that will sort of perhaps get close to pre-COVID levels, or, you know, what the forecast would have been pre-COVID, or will there be some sort of impact, do you think, still in 20 – 2021?

And then a really quick question on the Real Estate II fund. Would you be able to tell us how much you ended up raising for that? Thank you.

Christian Sinding: Thank you. Kim, will you take those?

Kim Henriksson: Yeah, I can. On the – on the carry, I mean, we're not going to give carry guidance years ahead here, but, of course, we're carefully optimistic about the opportunities for both value creation and exits in 2021 – maybe I would phrase it like that. And with regards to Real Estate II, we had 950 or so closed out by the end of the quarter, and the fundraising is still open but sort of materially concluded, so that should give you the sufficient information on that.

Elizabeth Miliatis: Absolutely, thank you.

Kim Henriksson: Great.

Operator: Thank you. And our next question comes from the line of Herman Cilic[?] of Carnegie. Please go ahead, your line's open.

Herman Cilic (Carnegie): Thank you and good morning. So my first question was could you just walk us through sort of the mechanics when you decided to transact with IFS? Because I suppose you could have kept that one within EQT VII as well if you see good valuation, or good value creation for the future, in the company as well?

Christian Sinding: Yeah, thank you. And the way that we think about those kinds of transactions is, you know, in relatively few circumstances, we see that companies we own continue to, you know, fit very well within EQT's investment strategy, how we create value, and that there's still a lot of value creation left, although we've already created quite a bit of value. And, you know, private equity is a – is a particularly interesting field, because our funds are limited in time. So what we have to find the right balance of is to, you know, own companies, create value with them and exit them within the timeframe that's needed, but not to sell them too early.

So what we're trying to do with this transaction, that we've done, you know, a few times before, is make sure we get a very solid and good exit from EQT VII, which is a fund that is in exit mode and will continue to be so, while finding a new owner that can own the company for a longer period of time to really drive that next phase of value creation that we're quite confident about. Of course, this is – you know, those funds are controlled by EQT. We have a process around this, which means that, you know, if – there's a third-party, independently run process has – it's set the valuation of the company. So we had two investment banks working with us, running a process to sell the entire business. But we ended up getting offers for the business where a sale of a minority was more attractive, and therefore we decided to partner with TA Associates and reinvest from EQT. So there are a number of elements that come together that make sure that this is handled in a – in an appropriate way and also, of course, with the interests of our investors in mind.

Herman Cilic: That's very clear, thank you. And then three a bit shorter questions. So, in Q1, you gave us sort of a like-for-like value change. Could we have an update on that?

And then sort of more a general market sense, with the turbulence from COVID, do you see sort of an increase of the trend that fundraising is perhaps concentrated even more to larger players as yourself, while perhaps your smallest peers are struggling a bit more on the fundraising side?

And then the last question is just with the rest of the credit, you have a very strong balance sheet over from before, and that's strengthened further. Could we see any alterations to how you think about dividends in the near term to sort of work with the balance sheet and maybe make it a more slim[?]?

Chris Sinding: Yeah. Do you want to, Kim, take the value change, and I'll take the –

Kim Henriksson: Well, on the like-for-like value change, I can comment on that. I guess we gave one bullet point or something to give you a sense, because it was in the midst of the COVID pandemic, but it's not a data point that we intend to sort of provide on a continuous basis. Obviously, you've seen how the MOICs have developed during the quarter, so it's in the – going in the right direction from Q1.

And the market trends, Chris, I'll leave that to you.

Chris Sinding: Yeah. Yeah, there's been a – generally, what we expect in private markets, and actually in the global economy as well, is that those – you know, the trends that were there pre-COVID are going to be accelerated, whether they were positive or negative – simply put. And before COVID, we saw that fundraising, you know, was being concentrated to the larger players on the one hand, and also to niche specialists on the other hand, and I would expect that to continue. You know, I think what's been proven now, over the long term, is that the larger players like EQT deliver, you know, more consistent returns in the long term. That's ultimately what our customers are requiring and needing to meet their obligations. So, in that sense, you're right. And when it comes to our balance sheet, if I remind you, the way we want to - or we will be using our balance sheet is to support our growth strategies, so to support EQT growth, to support the Asia-Pacific strategy, to support real estate and to make, you know, potential add-on acquisitions. So we don't have any plans to change that, and we believe that those initiatives together will – you know, will require a material amount of capital to really be successful. Of course, if we one day we believe that our balance sheet is – if we have too much liquidity, of course we'll review our dividend policy etc, but it's far too early to discuss that now.

Herman Cilic: Thank you very much.

Operator: Thank you. And our next question comes from the line of Magnus Andersson of ABG. Please go ahead, your line is open.

Magnus Andersson (ABG): Yes. Good morning, guys – a couple of short ones. First of all, when it comes to EQT VII, I remember that during the Q1 statement, when the MOIC went down to 1.6 from 1.8, you mentioned that it was primarily due to one particular situation. Now you're back up to 1.7, and I just wanted to know, is that situation now sorted out, which I think will mean that your MOIC continues up, or…?

Christian Sinding: I can take that one. I think it's – it's a bit more complicated because, of course, we have a number of companies in that portfolio. And some are accelerating their value creation through COVID, some are right on plan, and some are – you know, just a small few are – you know, are more impacted in it from a leisure and travel space. So I'd say it's a combination of elements, actually.

Magnus Andersson: Okay, so you don't – because in Q1, it sounded like the pretty sharp drop there was due to one larger situation.

Christian Sinding: Yes, I mean, we've – the other way that I can say it is – and we don't like to talk about, you know, specific companies so much –

Magnus Andersson: Okay.

Christian Sinding: But what I can say is that we've – you know, we don't expect to need any more capital than we said in Q1. And we've also seen that some of our companies are actually able to really improve and drive their business during this period of time. So, when you look at the portfolio, there's no single factor, including that single company, which is – which is driving it; it's a number of things together.

Magnus Andersson: Okay, thank you. And then, just on headcount outlook for the second half of the year, you said you have stopped hiring unless it was strategic – very strategic hiring. Does it mean that we should expect headcount to be flat in the second half versus – from here?

Kim Henriksson: I can take that question. No, headcount will continue to go up towards the second half of the year for – well, for two reasons. That the hiring course we've initiated is not complete, i.e. we are still hiring for strategic situations; and secondly, because there is a delay in hirings always. So even people that were signed before the hiring course have not, all of them, started as of yet. So there's still a trickle of personnel coming in, so it will continue to go up towards the second half of the year, yeah.

Magnus Andersson: Okay, good. And finally, just on the credit divestment, you showed us the figures there from your segment result of 12 million in adjusted EBITDA. Is that a good representative number for late 2020, because I – as I – if I recall correctly, I think it was almost twice that level in 2018? I don't know if there was some one-offs or anything in there.

Kim Henriksson: No, one-offs not. But no, I'm not going to give sort of 2020 forecasted numbers for credit here, but there was a reason for mentioning the 19 number.

Magnus Andersson: Yeah, okay, good. Thank you, that's all for me.

Operator: Thank you. And our next question comes from the line of [inaudible] of JP Morgan. Please go ahead, your line is open.

Speaker (JP Morgan): Hi, good morning, guys. Thanks for the presentation. I just have a few questions. Firstly, in terms of the Infrastructure fund V. You know, I think you said that's been launched now. Just trying to get a sense of – it feels as if the equity fund will close, you know, hopefully by the end of this quarter. You know, I'm just trying to give – what is the sort of timeframe on the sort of closing that you anticipate on the Infrastructure V? So that's the first question.

The second one is, in terms of your evergreen funds, is there any mark to market impact that you have to put through on those funds or any other fund? I'm just trying to understand. Obviously, it doesn't look like there's been any mark to market impact. But is there anything – you know, is there – because it's basically flat, or do you just not do it on any funds?

And then just finally on the IFS, the – obviously, you've done the sort of sale, the transfer into the new fund now. Does that trigger a carried interest number into EQT fund VII, and then you take it at cost on the sale price into the next fund? So those are the three questions.

Christian Sinding: Thanks. I'll take the first one and the third one. On Infra V, what I said in the presentation earlier – that we expect it to be a similar timeline as for EQT IX. And, if you remember, we launched EQT IX in January, and we expect it to be done in a – materially concluded, as we say, by the end of Q3. So I think that gives you an indication of what we expect for Infra V. So that's probably the way to answer it. We launched it in the beginning of July, a couple of weeks ago. And, of course, we – you know, given that EQT IX is materially – you know, most of the heavy lifting in EQT IX is done, our efforts are, of course, very focused now on Infra V.

When it comes to IFS, EQT VII is not yet in carry mode, neither in cash flow terms nor in accounting terms. And the reason for that is that EQT's funds are primarily whole-fund carry, so European water holes[?]. And that means that, you know, we need to actually get – you know, we need [inaudible] repay the entire fund plus preferred return before the fund starts to generate carry and cash.

Speaker: Okay, understood.

Christian Sinding: Do you want [inaudible] the next question, Kim?

Kim Henriksson: On the – yeah, the market – the mark to market question, EQT invests as a house, as a company, in all its funds, both in order to have an entitlement to carry, but also that investment creates income in its own right. And that investment that we make as a house is marked to market every quarter. So there is an element of mark to market income in our – in our P&L; it's on the same line as carry. It's smallish, but you can see from the movements of the valuations here during the first half of the year that it's not going to be material.

Speaker: Okay, thank you.

Operator: Thank you. Our next question comes from the Bruce Hamilton at Morgan Stanley. Please go ahead, your line is open.

Bruce Hamilton (Morgan Stanley): Hi. Morning, guys, thanks for taking my questions. Maybe just going back to the sort of more industry sort of points around fundraising, I mean, obviously you made some good points about some of the larger guys taking share and so forth. But if I think about when you – you know, in terms of your recent experiences on fundraising, how much of the growth is sort of increasing allocations from existing DV[?] sovereign wealth fund investors versus more coming from sort of newer investors by geography, and then finally kind of newer investor types just in terms of the kind of growth runway for fundraising as you think about it?

And then secondly, in terms of the sort of phasing of some of the newer strategy – EQT growth in APAC in particular – can you just remind us how to think about when that might start impacting the P&L more materially and whether there's been any change in pace due to COVID-19, and how you think about that? Thank you.

Christian Sinding: Thank you. On fundraising, it's a broader question, actually – you know, what's happening in the fundraising market over the long term for – in private markets. We believe that, given also that interest rates are expected now to be quite low for the long term, the private market space has shown to outperform over more or less all time periods, and there's a real demand and need for yield over the long term. We believe that, you know, capital will continue to be allocated to private equity increasingly so over time.

The – so the new sources that are coming are – you know, are actually from multiple areas. It's from investors that are in it today that are under-allocated, it's investors today that want to increase their allocation, and some new investors. And some of those new investors include some of the sovereign wealth funds, etc, and some pension funds around the world, but also an increasing part will be coming from private wealth and ultimately also from retail, although that is still relatively early days, and most of the retail investing that's been done to date, or raised from the retail channel to date, is for typically US-centric product like REITs and business development corps etc that are partially listed entities. There's still not that much actual retail investing into private equity, because it's still complicated from a regulatory point of view, but that's changing as we speak. And we're, of course, working on that channel. And private wealth is also increasing their allocation. And together, those two – you know, private wealth or high-net-worth individuals, plus the broader retail savings – you know, the amount of capital in those areas are quite significant, and they're – they have very, very little allocation to private equity today.

So, it's, I would say, multi-faceted, and it's driven ultimately by our ability to drive returns. And that's what we're focusing on at EQT, as you know, is – is that, you know, that's – at the core, to make sure that we deliver long-term, attractive returns for investors.

When it comes to strategy, the – I don't think we've actually been that specific on the timing of our initiatives. But we're now – like I said, we are in the – you know, we're in the preparatory phase of building the team, strengthening the strategy, etc, both for growth and for Asia-Pacific. So, I would expect us to be – you know, continue to be active and probably launching more concrete funds around that – those two sometime during next year.

Bruce Hamilton: Great, thank you.

Operator: Thank you. And our –

Christian Sinding: Thank you.

Operator: – next question comes from the line of Mike Warner[?] at UBS. Please go ahead, your line is open.

Mike Warner (UBS): Thank you, guys. Most of my questions have been answered, but I guess, from a high-level perspective, over the past quarter we've gotten some guidance from the Department of Labor in the US about the potential expansion of investments into private markets – assets for the defined contribution retirement sector, particularly 401(k)s. You know, how does EQT think about this? Is this a potential opportunity? And if so, you know, can you give us a little bit of, I guess, guidance from a timing perspective? Thank you.

Christian Sinding: Thanks. And, like I mentioned in the previous question, it's still relatively early days. The regulation is still being discussed, and it depends also very much on the types of products that you're providing and how they're being provided. So we're – you know, as all of our, you know, larger peers – we're working on this to make sure we understand it and to – and to figure out exactly, you know, which products within EQT would fit this type of investor over the longer term. So we actually have a strategic initiative working on this right now, but it's – for this call, it's a bit too early to tell or to comment on, you know, when that type of fundraising will have a material impact on EQT. Personally, I think it's going to take some time, but, over the long term, like I just mentioned in the previous question, you know, the amount of capital coming from retail and private wealth channels are – you know, is very significant and just provides another, you know, potential capital growth leg for – you know, for private markets.

Mike Warner: Thank you.

Operator: Thank you. Our next question comes from the line of Gareth Blank[?] at Nordea. Please go ahead. Your line is open.

Jakob Brink (Nordea): It's Jakob Brink from Nordea. I guess that was me. Just a few questions following up on the EQT VII. Just to make sure, in your slides you have this saying that you have three exits, and then it says four, if you include IFS. How about the MOIC? Is that including sort of the actual sales price from EQT VII?

Kim Henriksson: The MOIC is as of 30th June. Having said that, I mean, the sale was fairly well advanced at that point, so we would – we would have known what the valuation is at that point in time.

Jakob Brink: Okay, fair enough. And then, on the credit facility you announced here a few weeks ago, or one week ago, could you just – apart from the ESG angle, could you then just elaborate a bit on what's the purpose of this credit facility, and, just for my understanding, where exactly and what is it going to be used for? Thank you.

Christian Sinding: That's a good question. It's a little bit complicated. You know, it's not at the EQT AB level. This type of financing called a subscription line is – is actually at the fund level. And you could – you could actually call it a revolver for the funds. So each fund in EQT has, you know, drawdowns and exits, and in order to manage the cash flows of the fund, you need a revolver to do that. And that revolver is also then used to – you know, to bridge investments and other things like that. So it's something which ultimately is included in the performance of – you know, of each of the private equity or, you know, private markets funds that we manage. And they're quite large, because of course the funds that we have are quite large and, you know, we need to – in short order, we need to be able to fund several billion euros, and then we have a credit line in order to fund that. Over time, it's used quite significantly, so it does have a – you know, a material impact on – you know, on the ultimate fund performance, and typically a positive one, because the equity returns are higher than the cost of those facilities. What we've done in this case is that we've linked the terms of that facility to our sustainability goals. So, the better we do on sustainability goals, such as diversity and, you know, the renewable energy initiatives etc, the better the terms of the facility. And that's what we really like about it. It's – and something we're going to continue to use, because it helps us continue to drive – you know, to drive sustainability in everything we do, and also – which is obviously good for everybody involved. And it also shows that we're willing to put concrete goals and concrete, you know, financial elements connected to sustainability, and we think that's important.

Jakob Brink: Okay. Thank you. And then, just on the credit divestment, maybe you'll give us more on that in August, but could you tell us something about – just briefly about the balance sheet impact of this divestment? Is there any, apart from the proceeds, or…?

Kim Henriksson: Yeah, I can comment on it. It – it's marginal, the balance sheet impact. There are no sort of tangible – no meaningful, tangible assets being sort of moved or sold. So it's going to be one line on the balance sheet in August, then – on each side of the balance sheet – the assets. But it's not material from a – from an overall EQT AB point of view.

Jakob Brink: Thank you. And then, final question, just coming back to the FTE growth, I think at – the guidance, or the soft guidance, you gave in connection with the IPO. So does this haring freeze, or seeming hiring freeze, mean that that correlation doesn't work anymore, or – and, if not, then why can you change it? I mean, why do you need less FTEs than you thought back half a year ago?

Kim Henriksson: Well, let's – let's rephrase that a little bit. I think – I think every company that – had to look critically at their – at their hiring plans in March and April of this year – of this year, and so did we. At the same time, what we are – what we are doing is ensuring that we come out stronger at the other end of this. So we – it's a balance. We need to – we need to sort of press the gas button at the same time as we press the brake on the – on the other side. So it's a balancing act.

Jakob Brink: But basically I think what you said back half a year go or more – back in September was that the – was that half FTE growth compared to AUM growth sort of over the long run. Is that then less than 50% now, or is it – will you come back to that level when the uncertainty around the pandemic has decreased again?

Kim Henriksson: We – nobody knows what the new normal will look like after the pandemic, but we – but we are working under the assumption that we will come back to those kinds of levels afterwards.

Jakob Brink: Okay, fair enough. Many thanks.

Christian Sinding: If I just add one comment there, you know, we're obviously continuing to – you know, to drive scale in the firm. And that means, you know, using digital solutions, you know, to simplify our business and to become more and more effective over time. And, you know, with what's happening now, that's accelerated, but it's – you know, it's like Kim said. It's too early to tell whether that's going to change fundamentally that ratio that we have as our goal, but definitely we're taking – you know, taking this opportunity to be – become as efficient as possible and to drive technology into everything that we do –

Jakob Brink: Many thanks.

Christian Sinding: - operationally. Thank you.

Operator: Thank you. And, as there are no further questions at this time, I'll hand back to our speakers for the closing comments.

Christian Sinding: Thanks, everyone. Appreciate the excellent questions, as always, and hopefully this was informative for you. We look forward to seeing you again on 20th August and, in the meantime, wishing everyone a safe, healthy and good summer. Thanks a lot. Have a great day. Bye-bye.

[END OF TRANSCRIPT]