EQT AB Half-Year Results 2020

Thursday, 20th August 2020

Results Overview

Christian Sinding

Chief Executive Officer and Managing Partner, EQT AB

Welcome

Thank you. Good morning everyone, welcome to EQT's first half 2020 announcement. Today you're going to hear me and Kim Henriksson, our CFO and after the presentation we're going to open up for a Q&A.

First, we hope you're all safe and well and that you, your families and your businesses have fared well during this difficult pandemic period. At EQT, we remain cautious and we pay our respects to all those who have been affected. And nobody knows when this will be over or how exactly a new normal will look but our ambition is to maintain business as usual as much as we possibly can and we also see it as our responsibility, as active owners, to continue to build for the future and thus make a positive impact.

Delivering on strategy and priorities in a challenging period

Looking at the first half of an unprecedented 2020, even though it has been a challenging period, we have delivered on our strategy and our priorities as a firm. Our thematic investment strategy remains firm and we support our portfolio companies in every way that we can. Some are, of course, going through quite testing times, especially in the most exposed sectors, while others are really thriving.

But overall, we're pleased to see how our business model and our dedicated teams across the globe work in this tough and disruptive environment. And as you know, with crisis comes new ideas and new opportunities and we do believe EQT is uniquely positioned to influence a new normal. Thus, we will continue with our long-term responsible and thematic investing, future-proofing companies and making a positive impact.

Our purpose

Building on that, EQT is driven by our purpose. As you know, in March, we elevated into our own governance and as a pioneer in private markets, we've articulated and formalised our statement of purpose. This outlines our responsibility to make a positive impact and having a broad stakeholder perspective. Thus, it includes our commitment to increase diversity, support equal rights and also address climate change. And in March our statement of purpose was signed by the board of EQT AB, our articles of associations were up – our articles of association were updated and also approved by the annual general meeting thereafter.

We did this because we believe purpose-driven companies are crucial for long-term prosperity and for delivering value for the different stakeholders in society. And we of course hope that others will continue to join this move.

Main events at EQT in H1 2020

Now, before we dig deeper into the first half figures, let me go through some of the main events at EQT. First of all, the fundraisings of EQT IX and Infra V were launched and EQT IX was actually activated in July, following the conclusion of EQT VIII's commitment period. We found also a great new home for the EQT credit business line in Bridgepoint and we opened offices in both Sydney and Paris.

I'd also like to mention two elements relating to sustainability, first of all the ESG-linked subscription facility that we presented on the last call, which is now in use and also the A+ score of our overall sustainable strategy and governance, received from the UN PRI initiative. And this is the result not only of an integrated approach to ESG but also a strong belief in transparency and governance. And as you know and as I've said, we believe that making a positive impact and future-proofing companies ultimately drives better returns.

Next page. Please note that all numbers in this presentation, unless stated otherwise, exclude the business segment Credit.

Active and responsible investment is crucial in challenging times

Now, despite a slow down in investment and exit activity post the COVID-19 outbreak, we can clearly see that the deal market has started to pick up again, especially for quality companies, which are the ones that EQT pursues. So, the companies that have been resilient, or growing, throughout COVID are now actually even more attractive than the ones they were before the COVID outbreak, because of that resilience. And importantly, we see a strong pipeline of such thematic investment opportunities to deploy the capital of the new funds and we remain focused on those types of companies that we can – with EQT, with our toolset – really develop and accelerate.

Of course, having said this, markets are still uncertain and therefore, you know, getting deals done remains a little bit more complicated in this environment than it was before.

H1 2020 in short

Investments and exits

To some more numbers, in total EQT invested €2 billion in the first half of 2020 and post this period we made additional exciting investments such as HConnex and Metlifecare in Infrastructure IV and the Waystar add on in EQT VIII. Further, with the acquisition of IFS, the EQT VIII commitment period was terminated and the remaining capital in EQT VIII will be used for add-on acquisitions and strategic capital injections.

The successor fund, EQT IX, has, as of 14th July, started generating management fees and also done its first investments and that is in IFS, together with TA Associates in EQT VIII, so we reinvested in this business.

On the exit side, activity has been clearly lower compared to last year. However, we actually have executed some quite good exits, including after the period end, which was IFS from EQT VII, a significant sell-down in our public company Musti in Finland, in the Mid-Market Fund and we do have several exits in the pipeline over the coming 6–12 months, of course assuming that market conditions will remain open for that.

Value creation

And when we look at the expected returns for our key funds, we still expect that they will deliver according to plan in private equity and in Infrastructure II and IV and above plan in Infrastructure III. However, some of the long-term value creation will take longer, as we've stated before.

Overall, valuations have been resilient in our key funds but looking at some of the older funds, the ones that are in carried interest generating mode, those valuations are somewhat lower; you can see that on one of the pages that Kim will present and with COVID continuing and some companies continue to be challenged, those two facts are reflected in the revenue line of carried interest and investment income. Kim is going to refer to this in more detail to explain how that works.

Fundraising, AUM and FTE+

Now moving on to fundraising, the main focus is raising Infrastructure V and finalising EQT IX, as well as the ongoing fundraising of Public Value. Now, I am quite pleased with the progress of EQT IX fundraising, it's running according to plan and it's anticipated to be materially concluded during the third quarter. It is a great job there by the team and thank you to all of our LPs supporting this.

And turning to Infrastructure V, we announced a target size of €12.5 billion in July and with Infra IV getting close to being fully invested, we expect to start investing from Infra V during the fourth quarter and therefore also start generating management fees from that time.

As stated earlier, we expect that the fundraising for Infra V is expected to take a similar amount of time as for EQT IX. And that gives you an indication of how much we expect to have raised by the end of the year as well.

Looking at AUM, at the end of H1 we had €36.5 billion under management, as compared to €36.8 billion as per 30th June 2019. That of course is excluding Credit. And remember we activated EQT IX after the period, so that is not included in the numbers on this page.

When it comes to the number of FTE+, that's now 699 persons, up from 608 a year ago and the bulk of these new talents were recruited before the outbreak of COVID-19, as recruitments have been purposely slower during this challenging period. Both to recruit and integrate people virtually is more complicated, of course.

And talking about talent, we are really pleased to announce the recruitment of Olof Svensson as Head of Shareholder Relations in Q2. Olof spent more than 15 years at JP Morgan's equity capital markets team in London. He has extensive experience from the international equity capital markets, combined with really deep knowledge about EQT, working with us for a long time, that we think makes him a great fit to further develop the relations with EQT's shareholders, analysts, etcetera. We welcome Olof and he is joining us on 1st September.

Key financials

Now looking a little more to financials, our adjusted revenues for the first half of the year amounted to €261 million, a decrease of 7% compared to the corresponding period last year. Management fees remained flat and carried interest and investment income amounted to -€4 million due to lower fund valuations, again in the lower carried interest generating funds that have very few companies left in them. That means primarily EQT VI and Infra II: those funds do not have many holdings left and like I said, where some of the companies have been more affected by COVID-19.

Our new funds, as you know, have not yet started generating carried interest, so looking at the future of our larger funds, the ones with the potential to really impact EQT, the key funds, they're all performing well, as I've already stated and we do expect to meet our targets for those.

Our operating expenses increased for the first half of the year to €181 million, driven by growth in the number of employees to support our continued expansion, as you've also heard about. Thus, our adjusted EBITDA for the first half of the year amounted to €80 million and of course Kim will come back to this in a lot more detail.

We are executing on our strategy

EQT Growth

Next page, on strategy, we continue to drive the business forward. On EQT Growth, this is a really interesting opportunity, which will invest in the market segment between private equity and ventures and that's an area of really high strategic logic for us, given our strong private equity business and our strong ventures business. This is really attacking the white space in between, both in Europe and the US.

Using our local-with-local strategy, together with our Motherbrain artificial intelligence unit, we believe we are going to be fairly unique in this space and how we approach it. So we're already up to speed with strategy setting, reviewing deals and building up the team. We're evaluating deals and some of those deals could be executed this year as a balance sheet investment.

So this is exactly what we talked about when we went public last year, what we're going to use our capital for. It is to make investments in new business areas that ultimately will turn into a business line and fund and we expect to launch this strategy during 2021.

APAC

On Asia-Pacific, we opened our Sydney office and we're building out a team across the area and in that regard I'd also like to take the opportunity to announce that Simon Griffiths has rejoined EQT to head the EQT private equity in Asia-Pacific. Simon is an old EQTarian with strong entrepreneurial skills and long knowledge about EQT. He established EQT's office in Singapore in 2009, then led our investments there in – until 2015. And given his familiarity with our culture, our ways of working and his strong investment skills and his knowledge of APAC, we believe he's ideal to lead that expansion and we're very happy that he came back to us. So good luck and we expect this strategy also to be launched in 2021.

Real Estate

On the Real Estate side, we're developing the Real Estate through new geographies and strategies and we're really looking for thematic opportunities in this new normal that we're starting to see unfold. Of course, given COVID, some of these new initiatives may take a little bit longer time.

M&A

On the M&A side, the focus at the moment is our current business and our portfolio, of course but we are reviewing attractive investment opportunities and when evaluating those targets, people and culture are highly important and therefore also M&A activity is a little bit slower, now that we're all working over videoconference, than it otherwise would be but it is active.

Credit

And on Credit, we signed the agreement, as you know, to sell to Bridgepoint, which will be a great new owner, we think. Closing is expected in Q4 2020 and I would really want to thank the team for great continued cooperation during this transitional time.

Changes in the management team

And on the topic of teams, over the last year Hjalmar Winbladh has helped build EQT Ventures into a very successful business with a strong portfolio and a dedicated team. Ventures is actually a top-decile performer. Hjalmar is now longing to get back to his entrepreneurial roots. As he says, he's never had a job as long as he's had with EQT, so he's going to go back to driving his entrepreneurial businesses and we wish him the best of luck with that.

On our side, Lars and Alastair will co-head the team and together with the team, I'm sure, will be developing EQT Ventures successfully going forward as well.

And finally, on people, regarding the EQT Foundation, this is the foundation we started last year, which focuses on EQT's philanthropic initiatives. Here we have recruited Cilia Holmes Indahl, who was previously with Aker Maritime and Katapult in Oslo, to head this important organisation and we'll hear more about that after her first 100 days.

With those words, I will hand over to Kim, our CFO.

Financial Highlights

Kim Henriksson

Chief Financial Officer, EQT AB

Thank you Chris and next slide, please. One more, there, thank you.

Our business model is long-term, simple and scalable

I'd like to start with a page that I have shown before, just to reiterate that our way of thinking about the business remains the same, that 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 before the pandemic.

We are convinced that these good risk-adjusted fund returns, compared to the alternatives that are available to our fund investors, will, in turn, drive growth in our assets under management. And growth in our AUM will generate income, both management fees as well as carried interest and investment income revenues to EQT AB. And as has been said before, the management fees are contractually recurring and the carried interest revenues, they in turn are an integral and essential part of the long-term business model we have.

On the cost side, our cost base is mainly our people, our employees and other costs which are also driven by the number of employees.

Next slide, please.

Resilient valuations

Let's move over to value creation and valuations have shown resilience, given the turbulent environment in this period and a majority of our key funds have somewhat improved their gross MOIC during the latter part of H1. And when looking at the first half of 2020, investment income in our P&L was flat and since investment income is a function of the mark-to-market valuations of our own investments in the EQT funds, it illustrates the current performance across all funds.

Having said that, we are, in some cases, still below the valuations, as of year end and as you have seen, this has also impacted the carried interest and the investment income line in our P&L.

It may be worth noting that this is an accounting effect only, not a cash effect. And this effect relates to the older funds, which can also be seen on this chart. The older funds are also the ones having real-life carry so far, so EQT VI and Infra II, they have fewer assets left in the portfolio and are also somewhat more exposed to the pandemic than the more recent funds, where our thematic investment strategy has been further refined. And this can be seen on the development of the gross MOIC on this slide as well, i.e. on EQT VII and VIII and Infra III and IV, which have a different development.

Maybe worth noting also is that the older funds constitute a very small part of our total assets under management.

As Chris also mentioned, the impact from COVID-19 has delayed exits and realisations. And while these exits are primarily expected beyond 2020, the long-term value creation expectations remain and all key funds remain at least on plan to reach their target MOICs, while Infrastructure III continues to be above plan.

Carry interest

A reminder, still on this page, on carry interest and how that works. So, carry recognition under IFRS will always require an underlying positive development of the fund valuations and usually also exit of a portfolio company. And the rule of thumb, as we've said, is that initial recognition commences, typically, once 1.7, 1.8 of gross MOIC is reached, including then a few exits. And this would typically be 4–6 years after first investment.

Since most of the funds in the current AUM are more recent than that, only a few funds have had enough time to enter carry mode, as of yet, so the funds that have generated carry to date are primarily the older funds, EQT VI and Infra II and for future periods, however, the more recent funds will have a much larger impact on our financials for – both because the funds are bigger in size and EQT AB's share of the carry is higher.

The two key funds in terms of starting to generate carry according to IFRS are EQT VII and Infra III and like Chris mentioned on the market environment, we currently see the market as somewhat stronger than when we last spoke, which could impact the timing of carried interest and investment income but any recognition will still be dependent on both valuation increases and/or exits taking place. So with a stronger market, EQT VII could be closer to carry recognition but we do – at this point not – in time, we do not know if any recognition will take place in the current financial year.

Next slide, please.

Contractually recurring management fees – carried interest and investment income impacted

Before we continue with the numbers, I just want to highlight again also that all numbers here refer to our continued operations, i.e. excluding the business segment Credit and this is the way we will report going forward. And maybe worth noting is also that this interim report comes in the midst of fundraisings in our two key strategies and none of the news around the activation of EQT IX are reflected in the management fees in H1. Whilst we – obviously from a resource perspective, we need to be ready to manage significantly higher AUM and the same is true for Infra V.

So, starting with the revenues here, we see a strong growth in AUM over a longer period. However, there was no material change in AUM over – over this period and as the management fees are recurring in nature and based on AUM, revenues from management fees in H1 remained flat. And effective management fee rate also remained at 1.43%.

And when adding, then, carried interest and investment income, total revenues in H1 amounted to €265 – €261 million versus the €282 million in 2019. This decrease is then primarily driven by the lower valuations in the older, smaller, EQT funds, as just mentioned on the previous slide.

We've noted here on the slide also that EQT IX has now, as of mid July, started generating management fees and given the investment level in Infra IV, we do expect Infra V to be activated later this year.

Next slide, please.

Operating expenses reflecting long-term growth plans

So, on the expense side, year over year our group operating expenses have increased by some 22% and it's primarily driven by growth in personnel. And the reasons behind the personnel growth, that's both preparations for growth in AUM after we are activating these new flagship funds and we are venturing into new strategies but it's also the full run rate effect of the preparations for the IPO in 2019 and that can then be seen – the full run rate effect of that can be seen in this half-year period.

The hiring pace is currently somewhat lower due to the previously-mentioned hiring pause put in place as a precaution but this does not mean that we have stopped strategic hiring in important areas but rather that we are balancing the brake and the gas pedal at the same time.

We are conducting highly strategic recruitments, you heard Chris mention some of them and in this context we are – we are, for example, looking at additions to our new strategies in growth and our expansion in APAC.

The other operating expenses there, to a large extent, are FTE driven and they increased, along with FTE growth during the period.

Next slide please.

Build-out of the organisation affecting EBITDA in H1

Turning, then, to our EBITDA, EBITDA also reflects the investments we have made in people, as our personnel expenses have grown and timing-wise, ahead of our growth in AUM. For

H1 2020 specifically, on the right-hand-side here, we also see the impact of less carried interest and investment income for this period, as previously mentioned and this is due to the lower valuations in the older carry-generating funds, EQT VI and Infra II.

The current fundraisings in our flagship funds and thus the development of AUM in both private equity and infrastructure will then affect the margin in the period after the reporting period.

Income statement and items below EBITDA

Next slide, please. And this slide pulls it together in a consolidated income statement for the group and here what we have done from an accounting perspective, given the sale of Credit has now been signed, is to extract all revenue and cost items for the Credit business segment and then we have included as – only as one line at the bottom here net income from discontinued operations. And this is the way we will be reporting going forward here.

And I have, on the previous pages, commented on the EBITDA. Let me mention a couple of things also below EBITDA are depreciations have increased since 2019, or H1 2019, following the new office leases, mainly. We have – we moved in Stockholm a year ago, also and we have opened up in Sydney and Paris, as mentioned. And the net financial items in the first six months, they've been supported by some currency translation differences, so we do not have any meaningful interest income from our cash position in these numbers. And income taxes are down somewhat but that's because of lower earnings before tax as well.

Next slide, please.

Segment results

Private capital

Let's have a quick look at the segment results, then. As mentioned by Chris, the investment activity in the first half of the year has been slower, with total investments in private capital funds of €1.1 billion compared to €2.5 billion in H1 2019 and the gross exits in H1 amounted to €0.2 billion, compared to close to €4 billion in the comparison period. So this shows that the exit climate in the first six months has been uncertain and in combination with the relatively young portfolio of assets, the focus has been on continued development of existing companies.

And while fundraising activity has been very active, AUM in the reported period is flat versus H1, with EQT IX then activated in mid July. The total number of employees is similar to a year ago but this hides some pluses and minuses and the organisation has been prepared for the increased commitment from EQT IX and given the expansion in growth and APAC, you should see this number increase further going forward.

Adjusted revenue and gross segment result was around €10 million lower than the comparison period and again driven by the previously-mentioned lower carrying interest and investment income.

Next slide, please.

Real assets

And for real assets, which then consists of our infrastructure and real estate business lines, the total investments amounted to €1 billion compared to €3.2 billion in the comparison period. So gross funds – fund exits were limited and note that neither of Infra III, nor Infra IV have started to realise any assets as of today.

And while fundraising preparations have been very active in the period, AUM in the reported period is flat and the fundraising of EQT Real Estate II was materially concluded in the period, with around €950 million in committed capital as of 30th June.

Preparations also intensified for Infra V and then, at the end of June, we announced a target size of €12.5 billion.

The total headcount has increased over the last year, driven by the anticipated growth in AUM, as mentioned and revenue – adjusted revenue and gross segment result decreased temporarily, driven by the lower carried interest and investment income and also the increased personnel base.

Next slide, please.

Credit – discontinued operations

For completeness, please also see the results here for the Credit business now reported as discontinued. As mentioned, we are confident that we have found a great new home for the business and a transaction is expected to close in Q4. The disposal is not expected to have any material impact on the central functions on EQT, 43 from the Credit business line are expected to transfer upon closing of the transaction and then there's another four that are currently part of the segment Central that also will transfer but no material impact on the Central functions.

Next slide, please.

Key cash flow and balance sheet items

As you can see, we continue to have a very strong cash position at the end of the period, with some €800 million of cash and cash equivalents. The net decrease in cash compared to six months ago was driven by three things: financial investment into our funds, the first €100 million instalment of the 2019 dividend was paid out and then seasonality effects of the personnel expenses, where variable compensation is paid out in the spring but it's accrued for throughout the year, of course.

With regards to the financial investments, they relate to EQT AB's commitment to the EQT fund structures and you should expect this to increase going forward, as the larger funds continue, or start to draw for investment and EQT AB's share in these funds is higher.

On the right-hand side, the cash items I just mentioned are also the main reason for the slight reduction in the size of our balance sheet in H1.

In the actual half-year report, you can see a detailed overview of our balance sheet and in it you will also see a new line item called 'assets classified as held for sale', of €45 million, which is included in current assets and within the liability side, you can see that we have €5 million of liabilities directly associated with assets classified as held for sale, so both of these relate to the Credit business.

Summary

So, in summary, our cash position and balance sheet is strong and we will use it to grow in line with our strategy. You could start to see some investments to advance our new strategies already before the year end and with that, I would like to hand back to Chris for some concluding remarks.

Next slide, please.

Concluding Remarks

Christian Sinding

Chief Executive Officer and Managing Partner, EQT AB

Thank you Kim. So, it's time to conclude the presentation and we expect the markets to continue to be somewhat unpredictable going forward, given that COVID is continuing but as we said, they have improved significantly since last quarter. The full impact on the economies across the globe is yet to unfold but, grounded in our resilient business model and purpose-driven approach, our strategy lies firm. We will continue to invest thematically and support the portfolio companies to weather any storm and to work to really develop them for the best possible future. We also aim to play an active role in influencing the new normal, post-COVID-19, as responsible, purpose-driven investors.

And with that, we thank you very much and open up for questions.

Q&A

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

Our first question comes from the line of Magnus Andersson at ABG. Please go ahead, your line is open.

Magnus Andersson (ABG): Yes, good morning guys. Just starting with a question on fundraising, you mentioned in the report that it's taken longer than normal and it's more complicated. At the same time, we saw EQT IX took nine months. Well, it's expected to take nine months and you point at a similar period for Infra V. So my question is: is nine months longer than normal and/or is this primarily related to your new strategies? Because I noted on that slide four because, for the first time, you actually write that EQT Growth and APAC is expected to be launched in 2021.

Christian Sinding: Very good question, hi Magnus. It – you know, fundraising has taken longer and you know, typically flag – our flagship funds have taken, in the past, around six months to raise.

Magnus Andersson: Yeah.

Christian Sinding: So now it's taken about nine, so that is longer but I guess we can say versus our updates in April, it's gone a little bit faster than that. So that's why we – you know, in times of uncertainty, it's hard to be more precise and –

Magnus Andersson: Yeah.

Christian Sinding: – but it's – so it's somewhat longer but still, you know, well under a year, which is good.

Now, there's always a small tail that continues for a little bit longer than that but materially concluded is what we're saying. Now, when it comes to the newer funds, they – you know, new fund strategies take significantly longer, typically 18 months plus –

Magnus Andersson: Okay.

Christian Sinding: – and that depends very much on the strategy and the timing in the market, a number of other elements, so at this point in time I can't be any more specific than that.

Magnus Andersson: Okay, thanks. So, when you say that your Growth and APAC strategies are expected to be launched in 2021, that's the fundraising, then, going to be launched. It will still take quite a time before we see any meaningful P&L impact; is that correctly understood?

Christian Sinding: Well, I'd put it this way: you know, we'll – when we formally announce the fundraising, we will inform the market about that. And what's happening right now is, in the Growth business line, you know, we have a team in place and we're starting to look at investments and we'll make the first several investments from the balance sheet and then we'll launch the fundraising thereafter. In Asia-Pacific it's the same but it's, you know, on a slightly slower path than Growth. So I'd like to defer the specific answer until we're in a – you know, closer to the fundraise and then we can talk about that next time.

Magnus Andersson: Yeah, okay, thank you. And then, secondly, just a more broader question: in relation to the IPO you talked about a normal deployment period of roughly four years for new funds and we could see that in your historic numbers. However, we see that, between EQT VIII and IX it's roughly two years and between Infra III, IV and V, if things go according to plan, it will also be around four years. Could it be that, for the larger flagship funds, also, going forward, the new normal is shorter than four years, or do you think we will revert back to the previous deployment period?

Christian Sinding: That's an excellent question as well. If you look at EQT's 25, 26-year history, actually our average investment period has been around three years. Now –

Magnus Andersson: Yeah.

Christian Sinding: – we typically plan for – for many different reasons, we plan for a four-year deployment and if you look at – you know, if you look at the period before and after the financial crisis, for example, before the financial crisis we were closer to the three-year investment period, sometimes a little bit faster. During the financial crisis, it was a little bit more than five years and then after the financial crisis, we came back to kind of the three-year timeframe. So it's something which is difficult to make a very clear prognosis because it depends on a number of elements: you know, how successful we are in winning deals, how successful we are in finding deals, how we build our portfolio in terms of constructing it to be as diverse as it can be while still very value-creating and of course on market conditions. That's why we said – in the IPO we said, 'Let's assume a four-year timeframe,' but in fact, in the past, it's been a little bit faster than that.

Magnus Andersson: Yeah. Yeah, okay. Thank you very much, that's all from me.

Christian Sinding: Thank you.

Operator: Thank you and our next question comes from the line of Jakob Brink of Nordea. Please go ahead, your line is open.

Jakob Brink (Nordea): Thank you and good morning from my side as well. I have three questions; I will take them one at a time. Just coming back to Infra V, please, I guess you must be extremely close at activating it, since I know you've had two acquisitions in number four, saying that you are 80–85% invested, if I remember correctly. So is it fair to say that there will be no room for investment in Infra IV or is there still a little more room before you need to activate number five?

Christian Sinding: Yeah, typical we say is that, you know, when we're 80–85% invested, we're fully invested. We haven't made that official announcement yet, which means that, you know, there may be another small capital injection which will be from Infra IV but any material new investments will be from Infra V. Now, there's one other, you know, uncertainty of course in the market: there's a difference between a signed deal and a closed deal. There's also – you know, until deals are closed there is, of course, a little bit of theoretical uncertainty but for all – for all intents and purposes, you know, the next significant deal would be in Infra V, yes.

Jakob Brink: And it's not possible to quantify it anymore? How – when – I mean you said – or I think, Kim, you said in your presentation that it would be activated later this year. Could you be more specific, or...

Christian Sinding: No, I don't think we can because you know, we're – in the private markets we do – in each fund we do – with the exception of Ventures, which does more but in the other funds we're probably doing around five new investments a year and we're looking at more than 200, sometimes more than 300, so exactly which deal is – you know, is going to end up in the fund and in what form and with the exact timing is very, very complicated to give a prognosis on. So I think we stick to what Kim and I have said.

Jakob Brink: Okay, fair enough. Thank you. My second question, regarding FTEs, you mentioned also back in July and reiterated today as well, that you have been putting hiring on a pause, at least it would be mainly in the sort of front office part where you could still be hiring but looking at your divisional split, it's actually group functions which is adding 58 FTEs this year. I guess some of that happened before the corona outbreak but could you just clarify also, I guess, many of these will be dealing with all the fundraising but now you're fundraising two big flagship funds, so when that's done, it will take, as you said, maybe three years before you will have to do it again. So what will happen to those 58 employees, or do you see any scope for taking that down, even?

Christian Sinding: Kim, will you take that one?

Kim Henriksson: Yeah, I can take – I can comment on that but first of all there is – as I tried to mention, there is the run-rate effect also of employees having come onboard earlier and that now show up fully in the 2020 numbers. So we did beef up the Central functions quite a lot in advance of the IPO, so that's – that's one thing. You should expect that the growth on the employees side will be geared towards the investment professionals and also the exceptions to the hiring pause that we have had are mainly on the investment professionals side, i.e. to advance the new strategies, for example, or to ensure that – that we can manage the significant new AUM that is coming in.

Then, in terms of the fundraising, without commenting exactly on your FTE numbers there, on the capital raising side, it doesn't really work like that, as you sort of do a capital raising and then you wait for three years and then you start again. It is a constant work of meeting and serving our LPs, our clients and the like. Like we have indicated, it is not unlikely that there will be other fundraisings going on during the course of next year, instead.

Jakob Brink: Fair enough. Then, final question on the carried interest in the first half year, as you pointed out, I acknowledge it's in two old funds where the carried interest recognised most negative but still I guess this is somewhat different than what was mentioned in the IPO process. At least I thought that it couldn't be negative, so theoretically, I guess, it could but – and now it happened. So what will this mean for your future recognition? Is this something that you have to build in, i.e. that you'll be more cautious in recognising it on Infra III and EQT VII?

Christian Sinding: Kim?

Kim Henriksson: I can take that, Chris, if you don't mind.

Christian Sinding: Yeah.

Kim Henriksson: First of all the model that we've built – built already when we transferred to IFRS was such that we – that it would be highly unlikely that you would have negative carry but not that it is impossible at all. We would have had it back in the financial crisis and basically it was built sort of in – under normal circumstances, you would not have that.

Now, I think most of us can agree that the last six months, they have not been quite normal circumstances, they have been quite extraordinary and thus – and thus it has led to this effect and then, you know, combined with what we have said, that it's two older funds that have very few assets less and also that those are somewhat more affected than our average portfolio, you could say. So I do not expect it to change our accounting standards going forward.

Jakob Brink: Okay, thanks so much.

Christian Sinding: And then just – if I could just add a little bit. You know, we only have very few companies in these portfolios and if, you know, one or two of those very few companies are impacted significantly by COVID then the – you know, the valuation of the carry is impacted. So this is that – this is that – you know, that unusual, or highly unusual circumstance that does occur. I think what's important to look at is, you know, what's our communication regarding the key funds and the – you know, the current values of those and the trends and expectations of the long-term valuation, which remain on plan for all of them, except for Infra III, which is above plan. So I think our communication still stands from before, that this is a – still a highly unusual event in the way that our model works.

Jakob Brink: Okay, thank you.

Operator: Thank you. Our next question comes from the Arnaud Giblat of Exane. Please go ahead, your line is open.

Arnaud Giblat (Exane): Yeah, good morning, if I could just – have a quick follow up on the recognition of carry. Yeah, my understanding from the IPO was that you typically book the carry one or two years before the cash are as it were – are actually received and the reversal probably just cancels out that early recognition, so there's probably no significant cashflow impact here. Is that correct?

Kim Henriksson: Correct, there is no cash flow impact at all.

Arnaud Giblat: Okay, no that's clear. And secondly, on the fundraising environment. So, you've clearly become a bit more positive versus April, understandably. I'm just wondering how you're thinking about your – sizing up your funds. When you're talking to LPs, is there a great deal – some LPs might have turned more cautious, I suppose, back in March. How is the appetite for the asset class evolving? Are you seeing a lot more demand, perhaps? Is that evolving positively as interest rates are likely to stay at zero for a long time? Generally, is that what's driving your sizing or is it more your views around capacity, investment capacity?

Christian Sinding: Very good question, it's both. You know, whenever we set the new size of the fund, we look at our team capacity, our portfolio, you know, the investment opportunity set and of course then the demand from LPs. And that's why we do it in two phases. First we set the target and then we start the fundraising and then after we have met with all the investors and then had the initial dialogues, then we ultimately set the hard cap a little bit later. So you should expect the same for Infra V as in EQT IX in terms of process.

Now, you're absolutely right, I'm glad you brought that up, actually. You know, if you look at the macro situation for the private markets, given that long-term interest rates are now expected to be quite low for the foreseeable future and there's still a, you know, very significant need for yield for pension funds and financial institutions and pension euros all over the world, you know, we believe that the inflows to private equity will continue and actually continue to accelerate. And I think we'll see now that the markets have corrected again – you know, you'll see that there are a still a lot of investors that are under-allocated to the private markets and therefore – of course, it's a relatively supportive environment. It's a little bit more complicated, of course, to do a fundraising because, you know, 99% of meetings are still virtual so therefore it does take a little bit longer time. But I think we and our investors and investors in private equity in general are getting used to this way of working and we – you know, we have digital solutions and business models and portals and videos and all kinds of tools to help our investors get comfortable with this new way of interacting and so that's where we are.

Arnaud Giblat: That's great, thank you. And a final question, if I may: could you maybe give us a quick update on the debt capital markets? Now, clearly spreads have come in a lot. Is this at all a constraint to getting a deal done?

Christian Sinding: Yeah, I remember the question from last time and I said yes and this time I'd say more of a no, in other words that the debt markets are much more supportive. Now, there's real – there's of course a real bifurcation. You know, there are certain sectors like leisure, like retail, travel and parts of oil and gas that are still very, very challenging and of course in those – in those areas the debt markets are highly restrictive and the teams are very different. But in more robust sectors, like software, like fibre, like data centres, which we just announced yesterday with a large data centre investment, or in healthcare, medtech, essential services, those kinds of things, there both the equity markets and the capital markets are robust and you know, we actually did an IPO in March, like I mentioned, in Finland, with a company called Musti, a pet care retailer and that's performing quite well and we were able to do a sell-down here just a few weeks ago.

So there's a real – you know, the markets are active but they're very, you know, disciplined in terms of what areas they're active in.

Arnaud Giblat: How things change quickly. Thank you very much.

Christian Sinding: Yeah, they do. Thanks.

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

Bruce Hamilton (Morgan Stanley): Hi, good morning guys. Three questions, if I may? Firstly, just on the sort of current fundraising, could you just give a sense of any difference in kind of fee rates relative to previous funds? I'm assuming not. And within that, I think, when we sort of try to back out the numbers, Infra funds sort of look like they generated a bit more than PE funds, so just to check that. And then secondly, in terms of sort of fundraising, the proportion of fundraising for EQT IX and what you expect for Infra V coming from existing LPs, because I think historically it's been like 75–80%, or whether that's going to be, sort of, broadened out, i.e. there's quite a lot of opportunity with new clients that you're starting to tap?

And then finally, just on the fundraising, I guess, to clarify on the big flagship cycles, it sounds like we should think somewhere between two and three years is the right way to think about it, not 3–4. And then, on the new strategies, in terms of size, we should think APAC would be larger than Growth Capital, which would be larger than Real Estate; is that kind of directionally the right way to think about it? And for APAC, it's not like raising it – your first PE fund. I assume it's going to be – I don't know, is it – any help in sizing that. Is it like, you know, your third generation PE fund, that sort of – you know, two, three, four – I guess any way to help us maybe think about how big those could be when they finally come through? Thank you.

Christian Sinding: Thank you Bruce, good and sharp questions. Kim, let's try to take them together.

Kim Henriksson: Yeah.

Christian Sinding: If I start with the current fundraises and the management fee levels, you know, as these two funds, the two flagship funds are becoming closer and closer in size, I think you should expect that the management fee level also gets pretty similar. And – and I'm just thinking if I can – if I can answer it in any more detailed terms than that but I think that's probably the way to say it, with the exception – I mean, adding that we expect it to be more or less at the same level as the previous funds, maybe a tiny, tiny bit lower. But it's hard to make a prognosis because it depends really on – the reason I say that is that – you know, we have, in the beginning of the fundraise there's a first close discount on the management fee and then there's a wrap sheet in terms of size. So depending on when investors come in and at what size, that determines the final rate that's there. But overall, you know, quite a minor change versus the past.

Do you want to add anything to that, Kim?

Kim Henriksson: No, that's right. We've said that the terms for the funds are broadly in line with predecessor funds and that is absolutely correct.

Christian Sinding: Yeah, slightly, slightly, slightly lower, if anything.

Okay and then, on the proportion of existing versus new investors, given that we're still in the fundraise, I'm not going to be able to comment on it specifically but what I can say is that we are continuously trying to bring in new investors to EQT as we grow and develop and that's, you know, both to help us grow and develop but also to have more capital for co-invests and for developing the firm. So the firm's, you know, investment strategy, that is. So I'd say let's rather come back to that when the fundraising is complete.

And then, on the flagship fund cycles, you know, I answered that already. It's very hard to give a prognosis. I would think that 2–3 years is – that's a bit aggressive. Like I said, over our 25–26-year history for private equity and 12-year history or so for infrastructure, the average has been three, with, you know, slightly longer in more complicated market times and slightly faster in very attractive market times. So you know, I'll leave you to build your own model, the way you think about it but you know, shorter than three years, I think, would be too aggressive.

Kim, you want to add anything?

Kim Henriksson: No, that's right.

Operator: Thank you, our next question comes from –

Kim Henriksson: Yeah, well, there was a further question on the size of the –

Christian Sinding: Yeah, sorry, I forgot that one, yeah.

Kim Henriksson: – APAC funds, etcetera but I guess you're right in that it's not our first generation of funds in Asia-Pacific and that the market opportunity is huge but we haven't started sort of sizing the fund as of yet.

Bruce Hamilton: Okay, thank you.

Christian Sinding: Yeah. I think we'll – yeah, for those three funds, I think we'll defer until we get closer to the actual fundraisings before we comment.

Bruce Hamilton: Okay, great stuff, thanks.

Christian Sinding: Thanks.

Operator: Thank you. Our next question comes from the line of Gurjit Kambo of JP Morgan. Please go ahead, your line is open.

Gurjit Kambo (JP Morgan): Thanks for the presentation. So I have three questions. Firstly, in terms of M&A, you know, what sort of areas are you looking at? Is this to sort of accelerate the – you know, the growth areas that you've identified, i.e. Asia, Ventures, or is this sort of more sort of geographically focused [inaudible]? That's the first question.

The second one is, you know, how have sort of client return expectations developed, you know, sort of since COVID-19, around private capital, real assets, given the low interest rate environment will be around for, probably, several years now? How are the expectations from clients changing?

And then just finally, just in terms of the –€4 million in carry investment income, you know, can you split how much of that is kind of reversal of carry versus how much of that is maybe a negative mark-to-market on the investment income side? Thanks.

Christian Sinding: Thanks, I'll take the first two. On the M&A side, we – we're looking at both, Gurjit, we're looking at, you know, both geographic expansion and product expansion, so – you know, in our growth areas. So, you know, I think what's going to be most important are, on the one hand, the strategic fits with EQT and on the other hand, the culture of the firms that we're speaking with, that we have a, you know, similar investment philosophy, similar culture, similar value creation methodologies but where we together can be even stronger, where, you know, EQT can help them expand, accelerate their growth, with fundraising, with digitalisation, sustainability and our entire platform, you know, backing a smaller group. Well, that – you know, that smaller group either in a product area or a geography can of course help – you know they're the specialists and probably highly performing in those areas can help us grow and develop where we'd like to grow and develop. That's how we try to think about it.

Then, on client return expectations, you know, this is a – this is an interesting question, if you ask – you know, if you ask different LPs, you will get different questions. I think the way the – the way that most, you know, large, professional private equity investors will answer the question is that they're expecting, you know, 300–500 basis points of net outperformance versus public markets. And I think that's – that remains and then, of course, the follow up question is what do you expect the public markets to provide over time, etcetera but we're still razor focused on generating top-quartile performance, you know, for our investors and we believe, as we always say, that performance is really the core, as long as we perform as – you know, relatively strongly versus private equity and versus the public markets, we think that we'll be able to deliver, you know, what we need to do for our investors. And in our funds, you know, we're not reducing our return expectations during this time. We're continuing to find companies that, you know, on the one hand have – are in a thematic industry and are, you know, probably a fairly strong player in that industry but that we can, you know, during our ownership period, really impact and transform to become an even better, even more exciting and even more future-proof company.

So you know, we're not going after the businesses where you buy the company and you say, 'Hey, good luck guys, this is a great business, you know, we'll support you and then everything will go well,' you know, we really get close to the companies and we really try to make transformative actions so they can continue to develop – to drive, sorry, those strong returns.

Kim Henriksson: And on the third question, the mark-to-market effect on the investments we have made in our funds was approximately zero, out of the four.

Gurjit Kambo: It's basically sort of a clawback of carried interest; is that correct?

Kim Henriksson: Correct. Again, it's not a clawback in the sense of a –

Christian Sinding: It's not a –

Kim Henriksson: – cash clawback, it is just a reversal from an accounting point of view.

Gurjit Kambo: Thank you.

Christian Sinding: Yeah –

Operator: Thank you.

Christian Sinding: – there's no clawback. You know, in our waterfalls there's no clawback, this is just an accounting adjustment.

Operator: Okay, thank you. Our –

Christian Sinding: I think we're good.

Operator: Our next question comes from the line of Liz Miliatis of Bank of America.

Liz Miliatis (Bank of America): Hi, good morning and thank you for taking my question. I've only got one, again on carry. Is it safe to assume that the reversal that you've recognised in the first half is all the pain that you might actually recognise or is there a potential for some more carry to be reversed in the second half, depending on, you know, if COVID continues and we're going back in and out of lockdown and there's still more pressure on the global economy? Thank you.

Kim Henriksson: We – if we would have known of anything more, we would have taken it at the time of closing the account, so we are not aware of any further reversals. Again, I would also – I would also put this in the context of the size of these funds and the AUM which we have from these funds, which is some €2 billion, I think, out of the €37 billion we had at quarter end and the significantly more that we will have at year end, so it's not going to be a meaningful impact on EQT AB overall.

Liz Miliatis: Okay, thank you.

Operator: Thank you. And our next question comes from the line of Ermin Keric of Carnegie. Please go ahead, your line is open.

Ermin Keric (Carnegie): Thank you and good morning. So, the first question was on Infra V. You said it was likely to be activated by Q4 and that could give us maybe an indication of how much could be raised by then. I mean, if we just think about EQT IX, which expects to close in roughly nine months, so would we first assume – just if we assume Infra V is starting to charge fees at 2.5 months from the start of the capital raise, is that 50% of the capital raised by then? Should we think about it as one year or is there something we should keep in mind there?

Christian Sinding: Kim, you want to take that?

Kim Henriksson: Yeah, we – the way we wanted to answer that was we cannot give you any better guidance than thinking about it as linear, for now, because we cannot say what we expect it to be, or what we think it will be. But as you know, the way the economics work is that whatever we have at year end, that is what we should – that is what will be recognised as management fee revenue, then, for this year. So that's the number you should aim for.

Ermin Keric: Okay, thank you. And then, in terms of M&A, so what's your view on the optimal capital structure for EQT long term, so we think about the M&A firepower also with regards to the seed investments you want to do under the new growth strategies.

Christian Sinding: Kim?

Kim Henriksson: Yeah, we – as mentioned, we have about €800 million of cash now and we're just starting to make investments out of that for now. We are looking also at the potential for leverage and obviously the markets are quite supportive and have been for some time for that. But in the foreseeable future, we would expect to have a, you know, significantly positive, cash positive, balance sheet.

Ermin Keric: Okay, thank you. And then if we can move on to the cost side, how should we think about the outlook for the FTEs and other OPEX now? Should we think that you have sufficient scale to handle both EQT V and Infra V, so growth from hereon will basically only be for the new strategies in the coming, let's say, 12 months.

Christian Sinding: We will continue to hire selectively, also, on the PE and Infra side and we will – and then – and we will hire more in a targeted way on the Growth and APAC side, for example. And then it's not so that we can completely just stop recruiting for other functions and you know, capital raising, etcetera. So our FTEs will continue to grow. It's a bit of a slowdown during the course of this year in the growth but assuming things go back to new normal, that looks something like the old normal, we would expect hiring to pick up then, again, during the course of next year.

Ermin Keric: Thank you, that's helpful. And then, one final more detailed question, from my side, just on the income, could you just walk us through: what's the adjustment that's made there, on the carry and the investment income, between the reported and adjusted figure?

Kim Henriksson: Yeah, it – before the IPO, we acquired a lot of carry to the house and in order for that acquired carry to be accounted for in the same way as the carry the house already owned, we need to make these adjusted, so they are technical adjustments. I'm happy to go through them in detail on a separate occasion, if you'd like.

Ermin Keric: Of course. Thank you very much for taking the questions.

Kim Henriksson: No problem.

Operator: Thank you and our final question comes from the line of Jens Ehrenberg of Citi. Please go ahead, your line is open.

Jens Ehrenberg (Citi): Thanks, good morning guys. Just a few left over from me. Firstly, on the investment in your old funds, Kim, I think you mentioned that you would expect that, overall, to grow a little bit going forwards in line with the growing fund size. Can you give any indication of potential, like, co-investments in your own funds that you target? Do you have anything pencilled in there or can that vary from strategy to strategy?

That's the first question and the second question is just a bit of a follow-on, on the – on your growth ambitions in Asia. So I understand there's obviously focus on investment strategies in Asia. With there also be focus on actually raising funds in Asia, i.e. focusing on Asian LPs to get onboard your funds? Or is it really more on the investment side?

Christian Sinding: Thanks. I couldn't hear so well for your –

Kim Henriksson: Yeah, I –

Christian Sinding: – first question, did you hear the first question, Kim?

Kim Henriksson: Yeah, it's kind of the – essentially the size of the LP stake and the – we – historically – the recent history, it has been in the region of 2% that we are expected to invest into our own funds, or the carry holders, essentially and then you take that times what our share of the carry is, which is 35% in all future funds. Now, this 2%, it is moving in one direction only, i.e. towards a larger percentage than that but that's a good estimate for now.

Christian Sinding: And on the growth in Asia, you know, on – when it comes to fundraising, we are – you know, we are working to continue to develop our capital raising team and strategy across the globe. We have a significant amount of capital already from Asia in EQT overall and – and you know, when we raise – and then we are going to raise a separate Asia fund, so – to answer that question – you know, under the leadership of Simon and that'll be part of, you know, our private capital group. So we're working very closely with, you know, private equity and you know, in the same thematic way that we invest in other parts of the world. Exactly when we start that fundraise and the size, we are – we can't really comment on yet, because it's too early.

Jens Ehrenberg: Of course, no, it makes sense. Perfect. Thank you, that was helpful.

Christian Sinding: Right, thanks. Thanks Jens.

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

Christian Sinding: Thank you everyone. Excellent questions, I appreciate the participation this morning and look forward to next time. Have a great day. Bye-bye.

Kim Henriksson: Thank you. Bye, then.

[END OF TRANSCRIPT]