



K I N N E V I K

# **Q4 Report 2022**

Thursday, 2<sup>nd</sup> February 2023

## Q4 Update

Georgi Ganev

*Chief Executive Officer, Kinnevik*

### **The challenging market environment continues, but our resilience enables us to continue executing our strategy**

Our Net Asset Value was down by 9 percent in the fourth quarter and 27 percent in total during 2022. Samuel will guide you through the development of our Net Asset Value and how the valuations of our private companies have developed during the year in a few minutes.

Our investment activity during the quarter is a good example of what our platform enables us to invest in. We can invest in private high-growth software companies such as the hospitality management system Mews, a type of business model that we have a deep understanding of. We can also back public high-growth opportunities as demonstrated by the investment in Recursion, a clinical-stage biotech company forming part of our evolving healthcare portfolio. And our platform also allows us to invest in more capital-intensive, private market, climate tech, such as H2 Green Steel which is on a mission to decarbonise the green steel industry. These new investments cover three of our four investment focus areas - software, healthcare and climate tech.

Our fourth focus area is platforms and marketplaces, where we find Norwegian online grocer Oda. During the quarter the company raised 150 million euros from high-quality investors Summa Equity and Verdane and with participation from Kinnevik. This was executed in an extremely challenging fundraising environment, which is a testament to the company's potential. The fact that market multiples have come down in this space does not impact our view on the company's long-term potential.

And last but not least, I'm very proud that Kinnevik was recognised twice during the quarter for our efforts in sustainability. In the face of a very difficult environment, one could suggest that we should deprioritise our efforts to build sustainable businesses, when in fact this is the time to double down. As we have said many times, we have a long-term view and are building for generations, not the coming quarters.

### **2022 was a strong year operationally for our investees, and during the end of the year, we began to rebase growth plans...**

Beneath the material swings in valuations over the last three years, we have seen encouraging progress amongst our private companies. As illustrated on this slide, our private companies grew topline by around 100% on average in 2022, just as they did in 2021, outgrowing public market benchmarks by a factor of around 3 times. This means our companies are, on average, four times the size today compared to the end of 2020. The most explosive growth has been seen within virtual care – led by Spring Health – and in Software – led by companies like Pleo and TravelPerk.

Coming into 2023 however, the uncertain and dynamic market conditions has made it difficult for our companies to forecast growth expectations and set appropriate spending levels. Many have begun to trade in growth for runway and profits as appropriate. We believe our companies and ourselves will need to stay nimble and reactive through 2023. With the

uncertain outlook, we are prepared to deal with more material deviations to expectations compared to what we would face in a more typical year.

**...In exchange, profitability improvements are accelerated, runways are extended, and reliance on near-term funding environment is lower**

On the next page, page 6, we show that we have taken down our estimates on topline for 2023 by around 15 percent on average in the quarter as our companies gradually shift focus towards profitability. In return, the runway profile of our unlisted portfolio has improved materially, and it is expected to consume around 40 percent less capital on average in 2023 compared to 2022.

Overall, this growth-profitability trade-off had a net negative effect on our assessed valuations in the fourth quarter, but we believe it makes a more resilient portfolio heading into an uncertain 2023. It means that our companies are less reliant on the near-term funding environment and better prepared to deliver on our longer-term expectations.

Looking at the runway profile then – around 10 percent of our value-weighted portfolio needs to raise new funding during 2023. Meanwhile, around 40 percent is already profitable or funded to break-even under new and more conservative plans. Among these, you find VillageMD and Instabee, both of which have executed on cash flow accretive mergers in the last months.

So with 10% of our portfolio by value needing new financing this year, and around 20% needing new financing next year, there will be a handful of difficult situations for us to manage. But the resilience of our portfolio means the roughly 2.5 billion SEK that we are expecting to invest into our existing portfolio this year will primarily be used to accrete our ownership in our high-conviction businesses.

With that, I would like to hand over to Samuel to go through the private valuations and the development of our NAV.

## **Q4 Financial Update**

Samuel Sjöström

*Chief Financial Officer, Kinnevik*

Thank you Georgi. So with that covered, I will be spending some time on the more technical considerations. Clearly, however, against the backdrop of the operational performance of our private investments that Georgi just went through.

**Hence, we are entering 2023 with a rebased view on performance, and valuations reflecting public market multiple contraction in 2022**

So with that covered I will be spending some time on the more short-term and technical considerations, bearing in mind however the high-growth profile of our private investments that Georgi just went through.

That means we are on page 7, where we are showing changes in valuation and revenue multiples during 2022 in the investees in our most important NAV categories, and how that stacks up against their public market benchmarks.

Before I speak to these charts, I want to note that 2022 was a fairly challenging year to value private growth businesses like ours. The number of price points materializing in private markets practically came to a halt, and this forced us to focus almost entirely on public market benchmarks.

As Georgi mentioned earlier, we are valuing a portfolio of companies that is growing topline by 100% year-over-year on average – or around 3 times faster than their public benchmarks. So superimposing more mature public market valuation levels onto our young fast-growing private portfolio requires a lot of thought and deliberation.

So how have we dealt with this? Well, there are a couple of data points on this page, and what this data shows is that we have effectively taken down valuations in line with what we have seen in public markets. On average, we have contracted multiples by more than 50% during 2022. This has led to the valuations of our private companies basically developing on par with their median or top quartile public market benchmarks.

But we haven't been completely in the dark. We have had a few priced transactions in our private portfolio during the second half of 2022. In this quarter, VillageMD raised capital at a small premium to our Q3 mark, and Oda raised capital at a small discount. And earlier, we had Omio and Monese both raising capital at significantly higher valuations than what we had recorded in our quarterly reports. We have also seen smaller transactions in companies like TravelPerk and Quit Genius at or around our fair values. Drawing on those indications, it seems we have done a pretty decent and quite conservative job in trying to reflect how private market valuations have developed in 2022.

And would we remove the companies I just mentioned from these charts, the cuts to our private valuations shown in these red bars would clearly go deeper.

OK, so if that covers the magnitude of our actual underlying valuation reassessments, let's move on to how that translates into an impact on our NAV.

**Without price points serving as guidance, we have written down our private investments by more than 50% on average during 2022**

Because, if we flip over to page 8, there are effects that sit outside of our valuation assessments that have had a material impact on our NAV in 2022.

What this charts shows is that the 54% average underlying write-down translates into a 23% impact in the NAV statement. And there are a few factors that are contorting that 54% number.

Firstly, I mentioned the handful of priced transactions in our portfolio, and in general we have also invested around 4.6bn in new capital into our private portfolio through 2022 that has not been subjected to the same radical valuation changes as the capital we had invested in our portfolio when 2021 ended.

Secondly, during 2022, downside protection mechanisms like liquidation preferences have had a 3.2bn SEK positive impact. And around two-thirds of this impact stems from four later-stage lower-burn businesses.

Thirdly – around 60 percent of our unlisted portfolio is effectively in US dollars. While the dollar retreated a bit during the fourth quarter, it still provided significant positive tailwinds over the 2022 full-year. In total, currencies had a 2.8bn SEK positive impact during the year.

And that's what brings us to the 23% write-down you see in our NAV statement.

So again – in companies where we have exercised our discretion and revised valuations without the ability to calibrate against priced transactions in the current market, we have taken down our valuations in public market magnitudes. But due to a few transactions and the magnitude of capital we have deployed, together with variables like currencies and liquidation preferences, the NAV impact is more muted.

### **Key in-quarter reassessments revolve around four investees**

With that out the way, then let's move onto the key valuation reassessments in Q4 on page 9.

The four key revisions this quarter are of VillageMD and Spring Health on the upside and Instabee and Cityblock on the downside.

You have more elaborate descriptions for all material businesses in note 4, but in short –

At VillageMD, we are valuing the business at a slight discount to the recent funding round that was carried out to finance the acquisition of Summit Health, leading to a write-up of around 15% in dollar terms. Headed into 2023, the combined business is expected to be EBITDA positive while growing slightly ahead of public benchmarks.

At our other value-based care business Cityblock, we are decreasing our valuation by 18% in dollars. This stems from a contracting multiple, keeping the relative valuation to VillageMD largely unchanged, and also in part from a slightly lower revenue base due to one-off effects of the company shedding some less profitable markets. We expect that measure to be gross profit accretive already in late 2023.

Another larger change this quarter is that we are taking down our valuation of Instabee by 28% after having picked it up by more than 20% in Q3. This volatility and this quarter's adjustment is a good example of the difficulties in forecasting and setting growth expectations for more consumer-facing businesses heading into 2023 – and we have taken down our short-term expectations quite materially relative to the previous quarter to leave more room for positive surprises. With this write-down, we are still up around 20% in 2022, which reflects the company's great progress and the attractiveness of the merger.

Lastly then, we have written up our underlying valuation of Spring Health by around 25% this quarter in dollar terms. This is a company that grew revenues by more than 250% in 2022 and is on track to have scaled topline by 10x since our 2021 investment when 2023 ends. This fantastic performance means the company has now grown into the valuation we invested at in late 2021 in spite of 75% multiple contraction during the same period, and that the effect of liquidation preferences loses its relevance.

So in total and in broader strokes, we wrote down our private investments by 10% in the fourth quarter, driven primarily by a mix of multiple contraction and revised 2023 outlooks.

### **In total, net asset value was down 27% in 2022**

Looking then at the full NAV, it is down by 27% in 2022. Clearly valuation levels in our growth portfolio have been the key driver of downward pressure in 2022, decreasing by more than SEK 16 billion in value before adding the SEK 4.7 billion we net invested into the growth portfolio during the year. Counterbalancing this is a resilient Tele2, down SEK 3 billion when adjusting for the SEK 9.6 billion in capital that we have released through dividends and our

May sell-down. And also of course, our significant net cash position making up 20% of our end-of-year NAV.

And as I believe you all have seen, the big swings have continued during the first few weeks of 2023 with our public investment trading up by 8-9%, and the more important benchmarks for our private valuations expanding by around 15-20%. So in this market, you could say that expiry date of our quarterly NAV continues to be fairly short.

### **Closing 2022; Entering 2023**

Before I hand it back over to Georgi, I would like to try and summarise 2022 from evaluations perspective and provide some of our thoughts as we start the new year. Firstly, our private companies outpace their public benchmarks by 3X in 2022, growing revenues by 100%, and we are expecting our portfolio to continue to outperform these benchmarks on average in 2023.

Secondly, we have taken down multiples by more than 50% on average in line with what we have observed in public markets. So we are entering 2023 with reset multiples reflecting the current state of markets.

Thirdly, we have traded in an average 15% cut on expected 2023 top line in favour of extended runways, with 40% of our private portfolio by value now being invested in companies that do not require further capital injections. The outlook remains highly uncertain and we remain very humble, but our rebased expectations seek to reflect this uncertainty as well as the recessionary economy.

This all means again that we have taken down our underlying private valuations by more than 50% on average. And as I mentioned, looking at the handful of priced transactions during the second half of 2022 that sit outside of that number, we seem to have done a decent job in triangulating private market valuation levels. And this means we should have eaten away at least a very big chunk of the private market overhang that many refer to when discussing the near-term future of our venture and growth capital ecosystem.

To sum up, 2022 has been a challenging year across dimensions, including that of our valuation assessments, but we believe we have done an accurate job in reflecting the effect of the public market downturn on the valuations of our private investees, and we will continue to do so in 2023.

With that, I would like to hand it back to Georgi for a recap of our five-year transformation and our priorities going forward.

## **Our Transformation and Looking into 2023**

Georgi Ganev

*Chief Executive Officer, Kinnevik*

### **Over the last five years Kinnevik has been transformed into a leading listed growth-focused investment company**

Thank you Samuel. transformation. Since the start of 2018, we have gone from having about 10 percent of our portfolio invested into private companies to about 70 percent today. At the

same time, we have gone from a net debt position of 1.1 billion SEK to a net cash position of 10 billion SEK.

This transformation is not without challenges, and when we set out on our new growth-focused strategy, we focused on three of them. The first was that we were basically building a new portfolio from scratch, that needed to become self-sustainable within a fairly short period of time. The second is how we were going to finance this model relative to the previous one. And finally, we were also to an extent building a renewed track record as an investment firm in new exciting sectors.

**We have sought to build a growth portfolio that is balanced across different stages of maturity and risk within our core focus areas**

On page 14 is the S-curve you have seen before, illustrating how we have built a portfolio of growth companies across various stages of maturity. On one hand of the spectrum, you will find some very early-stage investments like Agreea, and on the other side much larger, profitable businesses like VillageMD.

This speaks to the strength of our platform and as an investor in two concrete ways. The first is that we don't have any constraints as to where on the maturity curve we can invest. We can get in very early, and we can get in late. We can invest 10 million dollars and we can invest a 100 million. We can invest into private, and we can invest into public. This flexibility may never be more relevant than in the market we are going through right now.

The second strength is that we can follow on through the life of an investment. Budbee – or Instabee – is a good example of this, having moved successfully along this S-curve growing revenues by 10 times since our first investment in 2018 up until the combination with Instabox last year. We have supported them on every step of their growth journey by investing at or above pro-rata in every funding round. We are on a similar journey with a company with Pleo for example.

**We have reallocated capital at a high level of intensity and discipline, and >35% of investments have been financed by growth portfolio exits**

On page 15 we come to the next challenge – financing. Over the last five years, we have reallocated capital at an aggressive pace. We have spun off 75 billion SEK in stock to our shareholders and we have rotated out 32 billion in dividends and sell-downs in our more mature assets. But more importantly, we have already over these first five years released 8 billion from our growth portfolio at strong returns. And this reallocation of capital within the Growth Portfolio has financed over 35 percent of the 22 billion SEK we have invested over these last five years.

So with the strong cash position we ended 2022 with, together with the dividends we expect from Tele2 and a continued rotation of capital within the growth portfolio, we are confident we can maintain our investment momentum going forward.

**Our growth portfolio has generated significant returns over the last five years even with the material downward correction in 2022**

On page 16, we can see the results and our track record to date. Even with the significant market correction during 2022, we have generated a 5-year IRR of 33 percent per year-end 2022 in our post 2018 investment cohort, and IRRs exceeding 50 percent within our two largest sectors healthcare and software. We haven't yet reached at all the same results within

platforms and marketplaces, much in part due to the material headwinds faced by our online grocers coming out of the pandemic. We are optimistic about the results we should be able to deliver from the reset valuation levels that we end 2022 with.

And again, our growth portfolio today makes up 70 percent of our overall portfolio. So going forward, the results generated by our growth-focused strategy will have significantly larger impact on our shareholder returns in the next five years compared to what it has had during the past five years.

Let's now have a look at our priorities and expectations for 2023 on page 18.

### **Looking into 2023**

In 2023, we will maintain a disciplined approach to capital allocation, using our strong financial position to support and maximise the impact from the companies where we have the highest conviction, but also continue to prune the portfolio.

We aim to maintain our investment momentum in 2023 and expect to invest around 5 billion SEK, of which roughly half into existing businesses, and the other half into new companies.

The economic environment will likely continue to be depressed, unpredictable and complex for some time, which our companies will need to adapt to. That said, we believe that the current re-rating of growth stocks and the challenges in raising new capital in 2023 will ultimately result in a more stable outlook for our venture and growth ecosystem. We also believe it will create opportunities for an investor like Kinnevik. And we intend to make full use of our uniqueness as an investor, with our long-term view and permanent capital structure, in pursuing those opportunities.

Now we are ready to answer your questions.

### **Q&A**

**Joachim Gunell (DNB Markets):** Thank you. Good morning, Georgi and Samuel. Starting off with your funding projections for the private portfolio, where you have provided a split of how you see this move into the coming years. When we sum that up, we get to the 40 plus 30 plus 10, which is 80 [of the private portfolio which is in no immediate funding need]. So is there any comment about the remaining 20% of the portfolio value here and the funding for that part?

**Samuel Sjöström:** Hey, Joachim, Samuel here. I answer your question like this. That 10% that we have in the most imminent bucket on that chart clearly we will need to deal with just as we will deal with runways ending at a later point in time.

**Joachim Gunell:** All right. And you now provided the full year figures for 2022 in terms of growth and the gross margin profile for both your private assets and the peer group averages. There seems to have been somewhat of a shift in the gross margin trajectory for an improvement for virtual care, but somewhat of a decline for your marketplace, software and consumer finance holdings. Can you tell us a bit about what is driving this development as these businesses are increasingly prioritising profitability?

**Samuel Sjöström:** Sure. Overall, Joachim, there is a fairly complex mix effect here because we are weighting this by Q422 numbers and the data we have shown in past reports have



been weighted on Q421 numbers. But to your more specific comments on gross margin, for instance, in software, the reason that is coming down is really that Pleo is now making up a smaller share of this group of investments relative to a year ago. And Pleo has higher gross margins than our other software investments have on average. So that lower weight is pushing the average down a bit.

Another example that is driving that is the addition of Mews, which is just structurally a lower margin business also than Pleo and that also moves that average down a bit.

**Joachim Gunell:** Understood. So, on a like-for-like basis, there are not that many changes in terms of attainable gross margin profiles?

**Samuel Sjöström:** No, Joachim, I would say it is the gross margin profiles that are really enabling our companies to slow down burn more so than anything else.

**Joachim Gunell:** Understood. And just finally, can you comment a bit more here about the fact that as we look into the next year, you expect for this pattern where fewer investments drives more of your NAV growth? And then particularly where you see value crystallisation opportunities in private portfolio.

**Georgi Ganev:** Yes, I can let me first go back to your first question, Joachim, because we had a hard time hearing you because you were cracking up a bit. I think your question then was how we sum up those different buckets of companies that needs to raise capital, right? So, it is the 10% of the portfolio that needs financing this year, another 20 next year, and the rest basically being 70% is either funded to break even or end of 2024. I think that was your question. So I just want to clarify that.

When it comes to your question now regarding how we will see the portfolio develop during 2023, I think the tough times we have gone through in 2022 and the uncertain outlook for 2023 will do nothing but fast forward and accelerate the distinction between the winners and the less resilient companies. So if that normally would take us two, three years, it will go faster than that now. That enables us to better focus our capital allocation to the companies where we have the long-term conviction.

**Joachim Gunell:** That was even clearer. Thank you.

**Derek Laliberte (ABG Sundal Collier):** Okay, thank you. And good morning. So I was wondering about the revenue expectations overall, you took them down by about 15% following the review. But I was wondering if you could give some more detail about how much is driven by the company refocusing on profitability and how much is still driven by generally lower demand. And perhaps if you could specifically comment on Instabee in which the valuation is down by quite a bit there, what has prompted the revised revenue outlook, if it is a lower e-commerce demand or you just being cautious in an uncertain environment? Thank you.

**Georgi Ganev:** Hi Derek. Thank you for your question. I think it is a combination. For sure, the companies have prioritised profitability over growth in some areas to extend their runways, so that is driven by the companies in the dialogue with us obviously, and other investors. I think in uncertain times and difficult times like last year, that is the right thing to do operationally as a CEO and founder, even though it hurts our short-term valuations.

But looking specifically at Instabee, you can just read the outlooks from their clients. Looking at Zalando, Boost and other e-commerce companies, their outlooks have been revised down throughout the 2022 and, of course, that impacts the whole market. But we should remember that our companies have strong growth and comparing that to the market in general, even if we have taken down our growth forecast on average with 15%, we are still outpacing the market growth by many times.

So it is a slight adjustment, yes, but primarily driven also because we would like to have a more resilient portfolio going into 2023 and hopefully going out of 2023 as well.

**Derek Laliberte:** Okay, great. Thanks for the explanation. And I was wondering specifically on a couple of companies there, Vivino number one. I think the valuation has been quite flat and we have not heard that much about the company, so just if you could give some update on how it is performing. And also I was wondering Mathem, how things are looking from a demand standpoint and how the inventory towards consumer is being negatively affected by the new warehouse. Thank you.

**Georgi Ganev:** Yeah, so both Vivino and Mathem are two of our companies facing challenges post pandemic. We had extreme levels of volume increases in those companies during the pandemic, and they are struggling to handle a rather steep decline in demand. And on top of that, in Mathem, you have the efficiency challenges since they are at least two years behind Oda. Luckily, we have Oda as a blueprint for us as an investor, so we know that the model works, and right now, Mathem is implementing that new warehouse which has gone live already. So we have high hopes and believe we will see the same efficiency improvement over time in Mathem.

Vivino as you know, it is the largest wine app in the world with many millions of users. But transforming that into a more full-fledged marketplace, has its challenges, both to have the right inventory and to monetise that customer stream in a good way. And of course, doing that at the same time as the market is declining for Vivino is a challenge. We have liquidation preferences helping us there on the valuation, so they are flat, but we do not foresee any write-ups in Vivino for some time because of those preferences.

**Derek Laliberte:** Great. Thanks for that that flavour. Very helpful. That was all for me.

**Rasmus Engberg (Handelsbanken):** Yes. Hi, good morning. I have just one question remaining. It relates to VillageMD. The capital increase there, are you participating in that or is it just the two companies that are mentioned in the releases?

**Georgi Ganev:** Hi, Rasmus. No, we have not participated in that capital increase. And as you might recall, we invested in VillageMD some years ago, and then the strategic investor, Walgreens Boots Alliance came in as a large investor, and they have gone way above 50% [in ownership]. So in that company, we are a smaller investor, but happy investor because of the progress, obviously, but without the same influence as we had in the beginning of their journey.

**Rasmus Engberg:** I was just curious because I did not see that your ownership share decreased or has the money not formally been raised yet? Is that why?

**Samuel Sjöström:** If you look back, our ownership has decreased and it is now standing at around 2%.

**Rasmus Engberg:** Compared to last quarter?

**Samuel Sjöström:** Compared to before the deal we are down around 1.5% or something.

**Rasmus Engberg:** Yeah. Okay. Sorry, I might have missed that. Thank you.

**Georgi Ganev:** Thank you

**David Johansson (Nordea):** Hi there. Good morning. Thank you for taking my questions. I have two questions really and the first one is related to Oda where you did not achieve your valuation mark despite the larger write-down in Q3. So it looks like the dilution was quite high in this deal where you had to go super pro rata to protect your ownership share. Could you maybe comment on the dilution effect here and other factors affecting the valuation versus your previous fair value?

And maybe also since we do not have much to go on in terms of funding rounds, do you believe the down round in Oda could be representative to the rest of the portfolio when they have to seek funding? Or if not, why is that the case for some of your other assets when they have to seek outside capital in the coming year or so? Thank you.

**Georgi Ganev:** Hey, David, let us try to separate our answers for your questions. I think firstly, as Samuel pointed out, it has been difficult to value the companies from quarter to quarter throughout last year. On average we have done a decent job in following the fluctuations. Maybe Oda and Mathem, as I also said during the presentation, have been impacted the most from both the changed environment regarding consumer buying power, but also of course their traded peers where multiples have gone down. We were very close to what we had in our book before this round.

Then, more tactically, we have a long-term conviction in Oda, so when we want to invest more than our pro rata, we are actually, as investor, even happy for a lower valuation. That in itself is not an issue, and I do not think it is symptomatic. If you look recently when we have our marks and where the rounds are being made – take Monese as an example, but there are also other examples where we have probably had too low valuations in our books compared to a recent round short thereafter. I do not know if you want to add something, Samuel.

**Samuel Sjöström:** Maybe just to clarify some confusion. This round was priced at a slim 10% discount to our valuation in Q3. I think the reason that number looks larger in our NAV statement is really two things. A, given the volatility in the market, we are being fairly cautious in terms of extrapolating deal valuations on enterprise values. So we are valuing Oda at 10-15% discount to that headline mark. Plus, as Georgi already mentioned, on the long-term-ness here in the potential and the geographic expansion, we are introducing a larger ESOP at Oda. And the way we deal with ESOP, from a valuation perspective, is very easy in that we take the full dilution all at once. We do not sit down and elaborate on strike prices and so forth and allocations but we take the full dilution at once, which is slightly different than what you see in public businesses.

So those two effects is really what widens that gap. In terms of actually pricing this business relative to other e-com businesses, we were very close to where this round happened.

**David Johansson:** Okay. Thank you for providing clarity on this. Also if I may, we have seen the VillageMD starting to acquire a number of healthcare practices across the US and it

looks like Walgreens is accumulating its ownership in the company. And as this is becoming quite a mature asset, what is your plan for this investment and could this potentially be something you are looking to divest here in the coming year or two?

**Georgi Ganev:** We have already divested part of our stake in VillageMD. And as I said, when we invest in companies, we are necessarily not looking for control, but for influence. But in VillageMD there is a limited influence from our side. And it is at the end of that maturity curve, the S-curve I referred to. So of course there is an opportunity for us to divest, but we will only do so if we need the capital and if the price is right.

**David Johansson:** Okay, thank you. Very clear. That is all for me.

**Stefan Wård (Pareto Securities):** Okay, thank you. I would like to ask three questions. First one is on operational update on Babylon and Transcarent. Second one is a little bit like you described the roadmap for VillageMD. If you could do a similar scenario for the holding in Cityblock. And then finally I would like to get some longer-term view on how much net cash you – I mean, it is obviously a favourable position to have a lot of cash, but from a capital efficiency perspective, what would you like to run the business with? I mean, SEK 10 billion seems a little bit excessive. Then you will continue to get ordinary dividends from Tele2, around SEK 1 billion per annum, and then you have some assets to divest. How should we think about the capital structure of Kinnevik in a three- to five-year perspective? Thank you.

**Georgi Ganev:** Okay, thank you Stefan. I will start and then we will see if Samuel has anything to add. Starting with operational performance in Babylon and Trascarent, I think looking at Babylon first, we have discussed this many times before, the company ended up in a perfect storm after this SPAC IPO back in 2021. And focusing only on growth has done incredible work to reposition the business as more a focused value-based care provider in the US, cutting burn significantly and still growing in these focused businesses. So that is great. The issue with Babylon was more on the funding side, having a funding overhang, after the redemptions in this SPAC. So with the capital raise that was made in October and together with the focused strategy in the US, where there will be a few assets sold, Babylon should be funded to break even. But I think the issue with Babylon has been less operational and much more financially driven because of that IPO at the wrong timing and what markets now expect from a business being public, i.e. profitability.

On Transcarent, it is a much younger company and we almost compare that journey with what we saw at Livongo back then. And doing some more overarching comparison to that journey, we are quite pleased to see the development in Transcarent. They are actually ahead if we compare what we saw at Livongo at this stage. Having said that, they have also of course been forced to focus on a more balanced growth and trade in that hyper growth for some cash preservation actions.

That is also impacting the valuation in our books. But we are very pleased with the team and we have followed that team for a long period of time. Glen Tullman and the team, many of which actually built Livongo, is now on this journey, so we are excited.

On Cityblock compared to VillageMD, I think it is very different because firstly, we do not have a clear strategic owner such as Walgreens Boots Alliance who wants the control in Cityblock, and instead we have that influence I was referring to earlier. Cityblock has also a completely unique position because they are targeting a market very, very difficult to

manage, and almost no one else have been able to show that type of cohorts that we see in Cityblock, so they can actually cater to the needs of these populations and do it profitably. Again, what Samuel referred to earlier in the presentation is that they have also shifted by focusing on certain geographies and certain populations and traded in some growth for longer runway. That also impacts the valuation in our books this quarter, together with the general multiples not increasing in the market.

Then I will go to the third question on how much cash we need, and I will let Samuel also come in here, but I think in times like these, it is very good to have a strong cash position. Historically, funds, private equity firms, investment firms have always been able to generate the best returns after recessions and downturns. We believe this will be the case this time around as well. And with our wide network in our four focused sectors that we today invest in, and a lot of dry powder, we can invest both in our existing portfolio that we have marked down now to market levels, and in new opportunities within these sectors. Therefore, I think the cash that you refer to as maybe excess capital, I think comes very handy in uncertain times like these.

Over time, we want to keep up our investment momentum, around SEK 5 billion per year, which is where we have been on average during the last five years. Samuel.

**Samuel Sjöström:** Yeah, maybe just to add a few nuances, Stefan. Clearly we do not find SEK 10 billion in net cash excessive, nor did we find SEK 13-14 billion in net cash excessive in Q2 this year. It is really about two things here and Georgi is touching on them. Firstly, it is about having financial muscles that enables us to rotate the portfolio and keep it vibrant and fresh. Secondly, it is about being able to cover our investment budget. And clearly when we mark down our portfolio by the magnitudes we have done in 2022, that means the first ratio swells a bit. But looking at 2022, holding net cash has been NAV accretive. So we are not concerned about the balance sheet being too round around the hips. And we clearly feel that the value of being able to feel a certainty that we can continue delivering on our strategy, that value will surely eclipse whatever incremental value you can find by fine-tuning the capital structure, in particular in this environment.

**Stefan Wård:** Okay, thank you.

**Joachim Gunell:** Thank you very much. Just one follow-up from me. Commenting a bit about the – you mentioned Georgi, the amount of dry powder in the system, etc. I know you do not provide any guidance for net investments for 2023, but which scenarios do you envision for the coming year or how do you see the exit climate? Should we particularly look towards the assets which are further up on the S-curve in terms of where you see potential divestment candidates?

**Georgi Ganev:** I think what we have provided in this report is nothing by simple maths. If we want to keep up the momentum to invest SEK 5 billion and we have SEK 10 billion at hand, it will be SEK 5 billion left at the end of the year. Of course, we have opportunity to do exits and if the markets open up and we see that we can get the right price from some of the businesses we prefer to exit rather than keep long-term, we might do so. Whether that results in an increased investment budget for this year or an increased net cash position, I cannot answer now. It truly depends on the opportunities we come across. So for us, a budget is more of an outlook or a forecast that helps us manage our capital. We are, again, a

permanent capital vehicle, not a fund with fund restrictions and maturity requirements. So we will only invest in the best businesses we find.

**Joachim Gunell:** Sure. But the question was more related to if you have seen any sequential shift with, not necessarily your cash position, but a lot of dry powder in the venture ecosystem, and whether the exit climate has sequentially improved as growth stocks have come back.

**Georgi Ganev:** No, I think on the contrary, many companies that invested a lot in 2021 have not done many or sometimes no investments at all during 2022. We kept up our momentum, both in the existing portfolio and new opportunities. I think this will change during 2023 and more of the ecosystems dry powder that you refer to will come into play. I hear people talking about IPO windows potentially opening up during this year, and that will, of course, open up for exit opportunities. But I would also like to rethink the term exit related to an IPO. For us, an IPO could mean a longer commitment to a company, as we have seen in the past with Livongo. So an IPO window opening up is not only about exits for us.

**Joachim Gunell:** Thank you.

**Andreas Lundberg (SEB):** Yeah, thank you. Good morning. Just a quick one here, the SEK 2.5 billion approximately planned investment for existing holdings, how much of that relates to the companies where you see financing needs for 2023? Thank you.

**Georgi Ganev:** Hi, thank you for the question. A tiny bit. If you look at the total portfolio, it is 10% that needs funding this year, another 20% next year. And 70% of our companies, in value, does not need funding before 2025 or never because they are fully funded. So this means that we are very forward-leaning, allocating money into our existing portfolio. So the SEK 2.5 billion, the majority of that will go to companies where we see strong traction and where we have high conviction.

**Andreas Lundberg:** Got it. Thank you so much.

**Georgi Ganev:** Thank you very much and thank you for listening in and for your questions. And as the last reminder, we will report a results for the first quarter of 2023 on the 20<sup>th</sup> April. Thank you.