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Sofina Newsletter #12 | 24 July 2023



Foreword

GROWTH INVESTING CONTINUES THROUGH ECONOMIC CYCLES

Growth investing is not about timing economic cycles, but about creating value across cycles. While we cannot predict inflation or what interest rates will be long term, we do know what foundations are necessary to build sustainable businesses: a long-term view, focus on fundamentals, a growing regard for societal and environmental impact. Our role as a sustainable growth investor is to create conditions for entrepreneurs to be successful, regardless of the moment in the cycle, by offering patient capital and supportive advice. The unpredictable or unstable macro-economic environment does not prevent us from executing our strategy to identify opportunities and build for the future.

During the first six months of 2023 we have invested at a slower pace than in the past, but in the portfolio we continue to create conditions for a firm's success. SellerX, who entered into an agreement to acquire US e-commerce aggregator Elevate Brands this quarter, is a good example of Sofina being instrumental in aligning different stakeholders to enable value creation through scale.

You will find our preliminary and unaudited net asset value calculations in this Newsletter. Final numbers will be published in our Half-year report in early September. The numbers reflect new commitments and divestments realised or the prudent adjustment of our direct portfolio valuations, but the foundations of the portfolio are the same: resilient, well-balanced across geographies, sectors and stages. As you will note, there have been fluctuations in our portfolio and rotation in our top 10 investments.

We see in our direct investments and through the portfolio of our extensive private funds network that the focus on innovation remains central. Whether in societal development, such as with Too Good To Go, a marketplace for discounted surplus food, or in development of sustainable solutions, such as Biobest, a leader in biological crop protection.

Understanding and valuing innovation is also what we have been doing by actively exploring what generative AI can bring to us as a company, as an investor, and for our portfolio companies. Generative AI can make us a more efficient and effective investor. For our portfolio companies, AI has long been a driver of business operations and customer experience, which we encourage by leveraging on our broad network and access to best practices. Finally, the adoption of generative AI will create new needs, new business models and investment opportunities. We don't expect major short-term disruption to our portfolio. We believe in making sense of generative AI in the Sofina way, with purpose and with patience: we first put in the hours to understand, then we will put investments behind our convictions.

We remain committed to embed environmental, social and governance drivers in our overall investment approach, with our portfolio companies and in the way we operate. Sustainable development is at the heart of our value creation strategy. The path we embarked on is a long one. Recently our efforts have focused on the sustainable roadmaps of our portfolio companies. Our investors are following a broad set of trainings to sharpen our collective focus on ESG opportunities and risks.



Harold Boël
Chief Executive Officer

Key indicators ¹

Preliminary Net Asset Value – estimate at 30 June 2023 ²

	30/06/2023	31/12/2022
Net Asset Value (in billion EUR)	9.3	9.3
Net Asset Value per share (in EUR) ³	279	279
Loan-to-value in transparency (in %)	-1.3%	-2.6%

Balance sheet in transparency ² at 30 June 2023

(in billion EUR)	30/06/2023	31/12/2022
Investment portfolio	9.2	9.1
Sofina Direct	4.9	4.8
<i>Long-term minority investments</i>	2.8	2.8
<i>Sofina Growth</i>	2.1	2.0
Sofina Private Funds	4.3	4.3
Net cash	0.1	0.2
Gross cash	0.8	0.9
Financial liabilities	-0.7	-0.7
Other	0.0	0.0
NAV	9.3	9.3

At 30 June 2023, Sofina had revolving **credit facilities** available for a total amount of EUR 1,125 million. Sofina is entitled to draw under the majority of these credit facilities for a maximum rolling period of 12 months per credit line. These credit facilities are all fully undrawn at the date of this Newsletter.

A diversified investment portfolio

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Long-term minority
investments



31% of the portfolio in
transparency²

Sofina Growth -
Investments in fast-
growing businesses



23% of the portfolio in
transparency²

Sofina Private Funds -
Investments in venture
and growth capital funds



46% of the portfolio in
transparency²

The top 10 investments of Sofina Direct represent 27% of Sofina's portfolio in transparency⁴

1. SC CHINA CO-INVESTMENT 2016-A (BYTEDANCE)
2. GROUPE PETIT FORESTIER
3. COGNITA
4. CAMBRIDGE ASSOCIATES
5. DRYLOCK TECHNOLOGIES
6. NUXE
7. BIOMÉRIEUX
8. VERSE INNOVATION
9. MÉRIEUX NUTRISCIENCES
10. SALTO SYSTEMS

- The 5 largest investments of Sofina Direct represent more than **15% but less than 20% of the portfolio in transparency** whereas the 7 largest investments of Sofina Direct **represent more than 20% of the portfolio in transparency**.
- **ByteDance**, a global internet and technology company active in more than 150 countries, is the sole holding **representing more than 5% of the fair value of the portfolio in transparency** (when considering our combined holdings through Sofina Direct and Sofina Private Funds).⁵
- Movements in the top 10:
 - Entry in the top 10: **Salto Systems**, a global leader in the development and production of leading-edge electronic access control solutions, particularly in sectors where security is critical. We first invested in this Spanish company in 2020. Salto Systems keeps growing, with recent capital rounds increasing its valuation.
 - Exit from the top 10: **Byju's**, the Indian online education leader. We conducted our latest valuation update, consistent with previous exercises, taking into account the delayed publication of the FY2022 financial statements and pending governance improvements, among other elements. We continue to engage with management and investors.

unaudited figures and following the valuation principles summarised below in the Explanatory notes. The amounts at 31 December 2022 are final (audited) figures.

³ Calculation based on the number of outstanding shares at closing date: 33,290,572 shares at 30 June 2023 and 33,332,072 shares at 31 December 2022.

⁴ Largest investments in terms of representation in the fair value of the portfolio in transparency. Listed in decreasing order of fair value at 30 June 2023 (portfolio in transparency) and based on preliminary and unaudited figures and following the valuation principles summarised below in the Explanatory notes. The ranking of our Sofina Direct investments does not take into consideration indirect holdings in these entities through certain partnerships of Sofina Private Funds.

⁵ Sofina values its holding in SC China Co-Investment 2016-A on the basis of the market multiples valuation method with an illiquidity discount. Its holding in ByteDance at Sofina Private Funds level is valued on the basis of the information contained in the reports of the General Partners made available to us at the date of this Newsletter.

Investment activity

Sofina Direct – Recent trends and investment activity

The **Healthcare and life sciences** dedicated funds managed to fundraise once again record high amounts of capital in the past six months. This reflects the breakthroughs that investors expect from computational biology, among others. Still, investment-wise, the sector has remained muted compared to previous years. Investors are looking for the right opportunities in a sector that is characterised by taking longer to bring products to market.

In the **Consumer and retail** sector, we continue to witness a shift towards affordability as a response to the inflationary environment. This has posed challenges for some higher-priced brands and retailers as they navigate the evolving landscape. Furthermore, the growing emphasis on cash preservation and generation has prompted companies to adopt more sustainable pricing strategies, and prioritise product market fit to drive customer retention and growth. Lastly, consolidation activity remains higher than usual in several consumer verticals.

In the **Digital transformation** sector, companies that have been able to maintain robust economics or those that are riding the AI wave are doing well in the current market environment. Growth expectations for most companies have come down to more reasonable levels, allowing those companies to better manage their economics. Market transactions seem to be picking up again with somewhat more sensible valuations, creating a potentially attractive investment environment. The adoption of generative AI will lead to investment opportunities, though at this stage it is too early to identify the potentially winning business models.

In the **Education** sector, there has been a resurgence of deal activity primarily in offline space with several large M&A and capital increase transactions in particular in K12 schooling. Within edtech, there has been some consolidation, but growth stage fundraise activity continues to be muted, particularly as some of the companies that raised prominent private rounds in 2021 have faced growth crunches or scaled back plans. Impact of generative AI – both on “how” to learn and on “what” to learn to remain relevant – is likely to be significant on the sector, though the details of when and in what form remain unclear.

At the date of this Newsletter, the main events of the year of **Sofina Direct** include:

- **Long-term minority investments** – The sale by Sofina of its shares in **Biotech Dental**, a European dentistry leader, closed in April. As previously announced, Sofina had signed an agreement with Henry Schein, the world’s largest provider of healthcare solutions to office-based dental and medical practitioners, for this sale.

As mentioned in our Annual report 2022, Sofina also increased its shareholding in **Biobest**, a global leader in biological crop protection and natural pollination, through the subscription of new shares.

- **Sofina Growth** – As announced in our Annual report 2022, Sofina made its first investment in **Too Good To Go**, a leading B2C marketplace for discounted surplus food that connects retailers looking to sell surplus food that would otherwise go to waste, with consumers looking for a good deal in return. Too Good To Go is a UN sustainable development goals contributor and a B Corp certified company.

In June, Sofina made an early-stage investment in **Mistral AI**, a generative AI company based in France with the ambition of creating a leading large language model (LLM) open-source alternative to OpenAI’s ChatGPT.

Sofina Private Funds – Recent trends and portfolio update

The start of 2023 saw a slowdown in sums committed to venture capital and growth funds, with just over USD 90 billion raised over the first 6 months, compared to a total of almost USD 300 billion in 2022. Myriad factors combined to buffet the markets, including the protracted war in Ukraine, other geopolitical uncertainties, concerns about the global banking system, stubbornly high inflation, and still-increasing interest rates. While valuations in the technology space are under pressure, innovation continues to be robust driven by generative AI. Sofina's portfolio funds managers are actively looking at the latest developments in generative AI, assessing the risks and opportunities for their existing portfolio companies, and looking at promising new entrants.

Sofina Private Funds' activity remains disciplined in its commitments approach, maintaining a stable pace across vintages and supporting its portfolio funds managers in navigating a difficult fundraising environment.

ESG

Sofina has the ambition to become an **SDG contributor**, as it believes that positive impact on communities and environments where businesses operate will be a growing driver of sustainable value creation. Our Environmental, Social and Governance work has been recognised as we have been admitted to the BEL ESG index, launched on 15 February 2023 by Euronext Brussels. This index aims to identify and track listed companies from the BEL20 and BELMid with the best ESG practices.

The Investment team continued to engage with the management teams of certain of our portfolio companies on their ESG priorities and roadmaps. Our ESG frameworks were consistently applied to inform our decision-making in Sofina Direct and Sofina Private Funds.

A programme of internal ESG trainings was launched to provide the right tools to our teams to include ESG considerations in the decision-making and to assist our portfolio companies on their ESG journey.

Financial calendar

5 September 2023	January 2024	28 March 2024	8 May 2024	July 2024
Half-year report 2023	<i>Sofina Newsletter</i> #13	Annual report 2023	Annual General Meeting	<i>Sofina</i> <i>Newsletter #14</i>

New Board members

During our Annual General Meeting that took place at our offices on 4 May 2023, three new Board members were appointed:



Leslie Teo

- Senior director at AI Singapore
- Independent director at Coinbase Singapore and industry advisor to Sygnum AG
- Held various functions on Data Science, former Chief Economist and Head of Asset Allocation at GIC and economist

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Arts & Economics), the University of Rochester (PhD in Economics and Finance), the University of California (Master of Information and Data Science), and The Wharton School (Advanced Management Program)



Rajeev Vasudeva

- Independent director at Brookfield Infrastructure Partners and director at Marico Industries and Pidilite Industries
- Former partner and CEO at Egon Zehnder
- Graduated from the University of Delhi (Bachelor of Arts in Economics and Bachelor of Laws) and from the University of Michigan (MBA)



Felix Goblet d'Alviella

- Business development co-ordinator - asset management at Kois Invest
- Previously at GL events and N+1 MERCAPITAL (now Alantra)
- Graduated from the Vrije Universiteit Brussel (Bachelor of Arts in Business Economics), the IESE Business School (MBA) and INSEAD (Executive Master in Change)

Community

Networking event in London

In March, our Investment team hosted a gathering in London for 25 of Sofina's core General Partners from Europe, US and Asia and management of our portfolio companies. The dinner was combined with a portfolio review offsite for our investment team and a visit to the Tate Modern Museum.

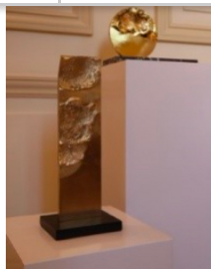


Engaging with our communities

We have had the opportunity to engage in local volunteering activities during the first half of 2023, for instance at the Environmental Observatory in Arlon to help preserve nature and at Willing Hearts in Singapore, a charity organisation that operates a kitchen to prepare, cook and distribute about 7,000 daily meals to over 70 locations island wide.



In April, we hosted two talented Belgian craftsmen supported by the [SofinaBoël Fund for Education and Talent](#), to present their story and art project. We had the privilege to exhibit their art project called "Fusion" in our office for a few weeks, including during our AGM.

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To monitor the initiative and projects funded, the managing committee of the **Sofina Covid Solidarity Fund**, a EUR 20+ million fund launched to address the adverse consequences of the global Covid-19 pandemic in Healthcare and Education, initiated an **independent impact analysis** to assess the concrete actions carried out by those projects.

Recent joiners

We are pleased to welcome three new colleagues:



Dirk Delmartino | Head of Communications

- Based in Brussels
- Previously worked at Naspers/Prosus Group, Amazon, Brunswick Group, Microsoft and as a journalist at De Standaard
- Graduated from the Catholic University of Leuven with a Master in Political Sciences and a MA in Applied Ethics



Carlo Napolitano | Investment Associate

- Based in Brussels
- Previously worked at the Stryze Group GmbH and at Milano Investment Partners (MIP) SGR after completing an internship at DeA Capital Alternative Funds SGR
- Graduated from the University of Virginia and the ESADE Business School with a double degree in Global Strategic Management, and from the Università Commerciale L.Bocconi with a BSc in Economics and Finance



Melissa Belo | Associate Legal Counsel

- Based in Luxembourg
- Previously worked as a corporate lawyer at Arendt & Medernach and fulfilled internships at Della AI in London and at the Luxembourg law firms Elvinger Hoss Prussen and Arendt & Medernach
- Graduated from Queen Mary University of London (LLM in International Business Law) and from University of Paris 1 Panthéon-Sorbonne (Master in Business Law)

Seven trainees joined the Investment, Finance and IT teams across our three offices during this semester.

Latest publications

- [Annual report 2022](#)
- Annual results 2022 – [slides](#) and [voice over](#)
- AGM 2023 – [slides](#) and [video recording](#)

Explanatory notes

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investments as well as its direct subsidiaries and their investments and other assets and liabilities.

Portfolio in transparency: Sofina SA manages its portfolio on the basis of the total investments held either directly or through investment subsidiaries. When preparing the financial statements as an Investment Entity, the fair value of its direct investments (in portfolio investments or in investment subsidiaries) is recognised as an asset in the balance sheet. By contrast, segment management information (based on internal reporting) is prepared on the entire portfolio in transparency (i.e. on all portfolio investments whether held by Sofina SA directly or indirectly through its investment subsidiaries), and thus on the basis of the total fair value of each investment ultimately held.

Method used for the estimate of the NAV and the portfolio in transparency: The estimate given above is preliminary and unaudited, calculated on the basis of the information available at the date of this Newsletter. This estimated NAV may well differ from the NAV that will be published in our Half-year report 2023 on 5 September 2023, after finalisation of the full valuation exercise. The current valuation exercise followed the same principles and the same rigour that were applied for previous valuation exercises.

Our investments that are part of Sofina Direct are valued using a number of methods whose choice depends on the nature and maturity of the business concerned and the availability of comparable data. The most common methods are Discounted Cash Flow, multiples of selected metrics using the valuation of comparable listed companies, and valuations of recent investments, when relevant. Please refer to our [Annual report 2022](#) (p.106 and ff.) for more details.

Variation of our NAV at 30 June 2023 that will be published in our Half-year report 2023 versus the estimated and unaudited NAV published in this Newsletter will come mostly from the Sofina Private Funds investment style. In the estimate published in this Newsletter, 98% of the Sofina Private Funds portfolio is valued based on Q1 2023 reports (received from our General Partners, corrected for capital calls and distributions that have occurred since the date of issuance of these reports, with listed assets taken at their stock market price at 30 June 2023, and using the exchange rates at such closing date). It is important to note that this estimated NAV does therefore not take into account the evolution of the valuation of the unlisted assets held within Sofina Private Funds during Q2 2023 that is unknown at this date. Currently, 12% of the assets within Sofina Private Funds are listed, meaning that for instance a 10% decrease in the valuation of the unlisted underlying assets held by the funds would represent a negative impact on the estimated NAV per share of EUR 11. Sofina Direct valuations are also subject to possible material post-closing adjusting events.

www.sofinagroup.com



SOFINA S.A.

Rue de l'Industrie, 31 – 1040 Brussels (Belgium)
RLE Brussels: 0403.219.397
Listed on Euronext Brussels (ISIN BE0003717312)

Contact: Dirk Delmartino
Tel.: +32 2 551 06 11
Email: dirk.delmartino@sofinagroup.com
info@sofinagroup.com
Website: www.sofinagroup.com

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