

Nordea Private Equity II - European Middle Market Buyout K/S

Strandgade 3
1401 Copenhagen
Business Registration No
28332793

**Annual report 01.10.2018
- 30.09.2019**

The Annual General Meeting adopted the annual report on 20.02.2020

Chairman of the General Meeting



Name: Jacob Christen Estrup

Member of Deloitte Touche Tohmatsu Limited

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Entity details

Entity

Nordea Private Equity II - European Middle Market Buyout K/S
Strandgade 3
1401 Copenhagen

Central Business Registration No (CVR): 28332793

Registered in: Copenhagen

Financial year: 01.10.2018 - 30.09.2019

Board of Directors

Alf Richard Wanamo
Jakob Jessen
Jacob Christen Estrup

Executive Board

Jacob Christen Estrup

General Partner

Nordea Private Equity II - EU MM Buyout A/S
Strandgade 3
1401 Copenhagen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 Copenhagen

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Nordea Private Equity II - European Middle Market Buyout K/S for the financial year 01.10.2018 - 30.09.2019.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30.09.2019 and of the results of its operations for the financial year 01.10.2018 - 30.09.2019.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 28.01.2020

Executive Board



Jacob Christen Estrup

Board of Directors



Alf Richard Wanamo



Jakob Jessen



Jacob Christen Estrup

Independent auditor's report

To the shareholders of Nordea Private Equity II - European Middle Market Buyout K/S

Opinion

We have audited the financial statements of Nordea Private Equity II - European Middle Market Buyout K/S for the financial year 01.10.2018 - 30.09.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30.09.2019 and of the results of its operations for the financial year 01.10.2018 - 30.09.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 28.01.2020

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No (CVR) 33963556



Bill Haudal Pedersen

State Authorised Public Accountant

Identification No (MNE) mne30131

Management commentary

Primary activities

Nordea Private Equity II – European Middle Market Buyout K/S was established on 22 December 2004 with aggregate capital commitments of EUR 50 million. In the period until the Final Closing on 3 May 2007, the Partnership received further commitments of EUR 71 million, bringing the total committed capital up to EUR 121 million.

Development in activities and finances

Macroeconomic view

Global economic growth in 2019 has slowed more than consensus anticipated due to escalation in trade sanctions. The negative tail outcome on the GDP growth is estimated to reach its steepest by the year-end on the global scale, though some shift is expected in 2020 in response to easier financial conditions, continued labour market improvement contra effects of the trade war.

The Euro-zone's quarterly economic growth was at an estimated 0.2% in Q3 2019, leaving it largely unchanged since the preceding quarter. This was driven by Germany's ability to avoid entering a recession due to improved public and private consumption, while the GDP growth rates were unchanged in France, Italy and Spain. But with increasing US trade sanctions and volatile political environments in both Italy and Spain, the outlook remains modest for 2020 with a 1% growth rate range. The US economy grew by an estimated annualized 1.9 percent in the third quarter of 2019 driven by household consumption, government spending and exports, offset by declining business investment and imports. The regional economy is expected to lose more of its steam during the coming quarters, landing at an estimated 1.7% GDP growth rate in 2020 as lingering trade uncertainties are expected to gradually spill over to employment and private consumption. While the Chinese economy advanced by 6% y-o-y in the September quarter of 2019, it remains the weakest growth rate since 1992. Amid the off-balance-sheet borrowings by local governments, the increasing US tariffs and an overall weakened global demand, the regional growth rate is expected to decline around 5% to 2020. Brazil's economic activity continued its positive trend; however, with the country's external balances at its worst and export lingering, the growth outlook remains unsure. Though, the government's recent successful attempts should support the positives of the country's reform agenda.

Private equity

Looking at the PE 5-year pooled 12.2% and 10-year pooled 15.2% return relative to S&P 500 10.7% and 14.7% and MSCI World 6.6% and 10.7% returns, respectively, strategic and operational control of alternatives continues to be the avenue for consistent outperformance.

During the first 9-month period, an estimated 981 funds reached final closings, collectively securing just below USD 425 billion globally in capital commitments, which is mainly in line with the same time last year. North American-focused funds raised a total of USD 266 billion, largely driven by the strong fund-raising of Q3 with aggregated capital raised of USD 108 billion, up by 21% since preceding quarter and

Management commentary

a 19% rise since Q3'18. The European-focused funds reached a total of USD 62.5 billion during the first three quarters of 2019, which mostly reflects the strong first half year as Q3 remained modest with a total of USD 15.7 billion capital raised.

The overall buyout market reached an aggregate deal value of USD 277 billion across 3,968 transactions globally in 2019 Q3YTD, compared to the 4,639 PE-backed buyout deals valued at USD 375 billion at the same time last year.

The 5-year average EBITDA purchase price multiple of US LBO transactions is at 10.2x contra US public valuation of 11.3x for the same reporting period. In Europe, while the entry multiple reached its highest in 2019 at 10.9x in YTD 2019, the 5-year average of 10.0x remains largely in line with the public valuation for the same time.

The PE exit market soured during the first three quarters, landing at modest USD 247 billion. While trade sale continues to be the most preferred exit route with over 60% of the aggregate exit value followed by sale to GPs with just above 20% aggregated exit value and 10% contribution from IPOs.

Meanwhile, the secondary market set a record with USD 42 billion during H1 2019, driven by the strong market for leverage buyout funds along with purchases of venture capital vehicles. With the secondary valuation nearly at par, the secondary volume is estimated to continue to rise.

Going forward

Estimated core EBITDA growth for public companies is revised downwards at an est. 2.9% as of ultimo December on a global scale. In Europe, the outlook still remains positive with growth momentum at 5.4% for 2019, driven by continued strong earnings reported by industrials and technology sub-sectors, partially offset by the tightening of the consumer discretionary group and basic materials sub-sectors. The US earnings growth trends forecast is at its lowest with an est. 2.4% as businesses continue to take the cost of tariffs along with estimated growth contraction in oil & gas with subsequent spillover on industrials and basic materials.

Looking ahead, the global economic growth rate which fell to est. 2.9% GDP in 2019, is forecasted to remain at low 3% growth rate range in 2020/21 as the worldwide trade continues to stagnate amid geopolitical tensions and increasing climate affairs.

Events after the balance sheet date

The Partnership made no drawdowns nor distributions subsequent to the balance sheet date.

From the balance sheet date till today, no circumstances have occurred which could alter the assessment of the annual report.

Income statement for 2018/19

	<u>Notes</u>	<u>2018/19 EUR</u>	<u>2017/18 EUR</u>
Gross profit/(loss)		1,337,272	(776,456)
Other financial income		1,331	6,393
Other financial expenses		<u>(20,476)</u>	<u>(9,664)</u>
Profit/(loss) for the year		<u>1,318,127</u>	<u>(779,727)</u>
Proposed distribution of profit/(loss)			
Retained earnings		<u>1,318,127</u>	<u>(779,727)</u>
		<u>1,318,127</u>	<u>(779,727)</u>

Balance sheet at 30.09.2019

	<u>Notes</u>	<u>2018/19</u> <u>EUR</u>	<u>2017/18</u> <u>EUR</u>
Other investments		<u>23,166,247</u>	<u>28,383,810</u>
Fixed asset investments		<u>23,166,247</u>	<u>28,383,810</u>
Fixed assets		<u>23,166,247</u>	<u>28,383,810</u>
Other receivables		<u>445,538</u>	<u>0</u>
Receivables		<u>445,538</u>	<u>0</u>
Cash		<u>2,961,026</u>	<u>1,886,038</u>
Current assets		<u>3,406,564</u>	<u>1,886,038</u>
Assets		<u>26,572,811</u>	<u>30,269,848</u>

Balance sheet at 30.09.2019

	<u>Notes</u>	<u>2018/19</u> <u>EUR</u>	<u>2017/18</u> <u>EUR</u>
Cash flow from/(to) Limited Partners		(17,957,581)	(12,951,395)
Retained earnings		<u>44,497,592</u>	<u>43,179,465</u>
Equity		<u>26,540,011</u>	<u>30,228,070</u>
Other payables		<u>32,800</u>	<u>41,778</u>
Current liabilities other than provisions		<u>32,800</u>	<u>41,778</u>
Liabilities other than provisions		<u>32,800</u>	<u>41,778</u>
Equity and liabilities		<u>26,572,811</u>	<u>30,269,848</u>

Contingent liabilities

1

Statement of changes in equity for 2018/19

	Cash flow from/ (to) Limited Partners EUR	Retained earnings EUR	Total EUR
Equity beginning of year	(12,951,395)	43,179,465	30,228,070
Profit/(loss) for the year	(5,006,186)	1,318,127	(3,688,059)
Equity end of year	(17,957,581)	44,497,592	26,540,011

Total committed capital at final closing EUR 121,000,000.

Notes

1. Contingent liabilities

The Partnership has total unfunded commitments with respect to its investments of EUR 3,430,881.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement

Income is recognised in the income statement when realised, comprising adjustments of the value of financial assets and liabilities. In the income statement, all costs are also recognised, including depreciations and write-downs.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Partnership, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

In recognising and measuring assets and liabilities, any anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Foreign currency translation

Transactions denominated in foreign currencies are translated at the rate of exchange on the transaction date. Foreign exchange adjustments arising from the difference between the exchange rates on the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses. Ownership interests in portfolio funds, account receivables and other debt denominated in foreign currencies are translated at the exchange rates on the balance sheet date. The differences between the exchange rates on the balance sheet date and the date on which the account receivables or payable arose are recognised in the income statement as financial income or financial expenses.

Foreign exchange adjustments of investments in portfolio funds are recognised in the income statement under profit/loss on investments.

Income statement

Gross profit or loss

Gross profit or loss comprises income from investments and external expenses.

Income from investments

Income from investments includes income from investments in portfolio funds (dividend), realised gains and losses on sale and unrealised gains and losses relating to possible revaluation or depreciation of investments in portfolio funds.

Accounting policies

Other external expenses

Other external costs include administrator expenses, fees to external consultants and the funds to general partners.

Other financial income

Financial income is recognised in the income statement by the amount relating to the financial year. Financial income comprises interest income, realised and unrealised gains in respect of transactions in listed shares, transactions denominated in foreign currencies, etc.

Other financial expenses

Financial expenses are recognised in the income statement by the amount relating to the financial year. Financial expenses comprise interest expenses, realised and unrealised losses in respect of transactions in listed shares, transactions denominated in foreign currencies, etc.

Balance sheet

Other investments

Other investments are stated at their estimated market values (fair value), fixed by the investment manager based on information received from the committed funds.

The investment manager may at its sole discretion choose to write down the investments relative to their market values as reported by the committed funds.

The estimated market value of listed portfolio companies is the quoted closing price at the balance sheet date reduced by up to 30% due to illiquidity of large stakes, lock-up periods, etc., in connection with initial public offerings and other factors constraining liquidity. The estimated market value of unlisted portfolio companies is the cost price, unless relevant information is available indicating that a significant valuation adjustment should be made. Such information could be a new trading price resulting from a capital increase or a partial sale or transactions carried out in peer group companies.

Investments in distressed securities are recognised at cost price as an estimated market value cannot be calculated.

The value at realisation of the investment may differ significantly from the estimated market value due to the uncertainty associated with stating an investment at its estimated market value and cost price.

Unrealised losses and gains as well as realised losses and gains from investments in funds are recognised in the income statement.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Cash

Cash comprises cash in bank deposits.

Accounting policies

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.