

# Danske Private Equity Partners III (USD-A) K/S

CVR-no. 29 17 25 36

c/o Gorrissen Federspiel  
Axeltorv 2  
1609 Copenhagen V

The Annual Report has been presented  
and approved at the Limited Partner-  
ship's Annual General Meeting:

2019

  
Chairman

## Annual Report

October 1, 2017 - September 30, 2018

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## Management's statement on the annual report

The management has today discussed and approved the annual report for Danske Private Equity Partners III (USD-A) K/S for the financial year October 1, 2017 - September 30, 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Limited Partnership's assets, liabilities and financial position as of September 30, 2018, as well as of the result of the Limited Partnership's activities for the financial year October 1, 2017 - September 30, 2018.

Furthermore, in our opinion, the Management's review gives a fair review of the development in the Limited Partnership's operations and financial matters and the results of the Limited Partnership's operations and financial position as a whole.

The annual report is recommended to be approved at the Annual General Meeting.

Copenhagen, December 21, 2018

Management:



General Partner  
DPE Partners III ApS  
Erik Fosgrau  
*Chief Executive Officer*

# Independent auditor's report

## To the Limited Partners of Danske Private Equity Partners III (USD-A) K/S

### Opinion

We have audited the financial statements of Danske Private Equity Partners III (USD-A) K/S for the financial year October 1, 2017 – September 30, 2018, which comprise accounting policies, income statement, balance sheet and notes. 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 financial position of the Company at September 30, 2018 and of the results of the Company's operations for the financial year October 1, 2017 – September 30, 2018 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 our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

### 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company 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 as to 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 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 the financial statements.

## Independent auditor's report

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

- ▶ 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 Company'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 Company'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 Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, 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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, 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's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review 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's review.

Copenhagen, December 21, 2018  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Ole Karstensen  
State Authorised  
Public Accountant  
MNE no.: mne16615



Rasmus Berntsen  
State Authorised  
Public Accountant  
MNE no.: mne35461

## Management's review

### Fund summary

<b>Company:</b>	Danske Private Equity Partners III (USD-A) K/S c/o Gorrissen Federspiel Axeltorv 2 1609 Copenhagen V, Denmark
	CVR-no.: 29 17 25 36 Established: September 22, 2005 Registered office: Copenhagen Financial year: October 1 - September 30
<b>Management:</b>	General Partner DPE Partners III ApS with Chief Executive Officer Erik Fosgrau
<b>Auditor:</b>	Ernst & Young Godkendt Revisionspartnerselskab Osvold Helmutshs Vej 4 Postboks 250 2000 Frederiksberg
<b>Manager (FAIF):</b>	Danske Private Equity A/S (FT-no.:23026) Website: <a href="http://www.danskeprivateequity.com">www.danskeprivateequity.com</a>

### Main and key figures

USD 1,000	2017/18	2016/17	2015/16	2014/15	2013/14
Gains/losses on investments in portfolio funds	11,304	11,924	20,709	-905	40,594
Operating profit	10,847	11,340	19,729	-1,092	38,637
Net financial income and expenses	38	9	5	2	3
Profit/loss	10,885	11,349	19,734	-1,090	38,640
Total assets	79,222	94,178	109,660	134,854	190,202
Total Limited Partners' capital	77,468	92,527	108,114	133,744	188,567
Investments in portfolio funds	76,378	91,359	105,026	131,336	186,349
Performance ratio *	1.74	1.70	1.65	1.58	1.59

\* Accumulated distributions and capital account end period (reduced by unpaid capital)/accumulated paid-up capital.



## Management's review

### Main activity

Danske Private Equity Partners III (USD-A) K/S ("Danske PEP III (USD-A)") is a fund-of-funds with a geographical focus on investments in North America. Investments are mainly made in small and mid market buy-out funds.

### Development in the financial year

The financial year resulted in a profit of USD 10.9 million, corresponding to an annual IRR of 13.0%. Gains on investments in portfolio funds amounted to USD 11.3 million. Administrative costs in the form of management fee to Danske Private Equity A/S amounted to USD 0.3 million and provision for performance fee to Danske Private Equity A/S amounted to USD 0.1 million.

The result is in line with our expectations.

An aggregate amount of USD 0.8 million was contributed to the portfolio funds during the financial year bringing total contributions to the portfolio funds to USD 262.2 million corresponding to 98.1% of the commitments in the portfolio funds.

An aggregate amount of USD 27.1 million was distributed from portfolio funds during the financial year, bringing total distributions from portfolio funds to USD 389.2 million, corresponding to 148.5% of the capital contributed to portfolio funds. In the financial year an aggregate amount of USD 25.9 million was distributed to the Limited Partners, bringing total distributions to USD 361.3 million, corresponding to 143.4% of the Limited Partners' paid-up capital.

### Special risks

#### Financial risks

The objective of Danske PEP III (USD-A)'s is to supply risk capital to the portfolio funds, and also to their investments in competitive companies in the North American Small and Mid Market. The highest factor of risk is therefore the changes in the value of the companies in which Danske PEP III (USD-A)'s portfolio funds invest in, which to a significant extent depend on the valuations of comparable listed companies on the quoted market. The valuation of investments in portfolio funds is an accounting estimate and could be connected with some uncertainty.

#### Interest rate risks

Danske PEP III (USD-A) is less sensitive to the changes in interest rate levels.

#### Foreign exchange currency risks

Danske PEP III (USD-A)'s investments in portfolio funds have been made in USD. As the capital in PEP III (USD-A) is in USD the currency risk is considered as insignificant.

### Investment activity

In the period from inception to September 30, 2018 Danske PEP III (USD-A) has invested in nine portfolio funds.

Since inception the portfolio funds have in general performed well.

## Management's review

### Cash resources

Danske PEP III (USD-A)'s cash resources as of September 30, 2018, include cash and cash equivalents and outstanding commitments from the Limited Partners, and are estimated as satisfactory to cover Danske PEP III (USD-A)'s liabilities including investment obligations, management fees etc.

### Expectations for 2018/19

The US LBO markets are still characterized by high levels of fundraising, increasing earnings and relatively strong exit markets, following most than 10 years of expansion since the Global Financial Crisis of 2008. However, total purchase multiples have expanded from around 8.5x EBITDA in the early 2010's to about 10x as of mid-2018. The credit markets also continue to be a concern with leveraged loan spreads only 400-500 bps (the lowest for 10 years) and the debt multiples (debt/EBITDA) at a consistently high 5-5.5 times. According to market data, the total par amount of outstanding leveraged loans topped USD 1,000 billion in 2018, adding to the picture of highly accommodating debt markets and buyout funds that take full advantage of these favorable markets. Finally, the months of October 2018 and December 2018 have seen relatively high levels of stock market volatility and generally flat stock markets for the year.

The development in the valuation of the portfolio fund's investments will still be influenced mainly by the individual company results/cash generating ability as well as the valuations of comparable, listed companies.

The above-mentioned development along with the general economic development will affect the result for 2018/19.

On balance, the result is thus expected to be in-line with the current year.

### Post balance sheet events

No events have occurred, after the balance sheet date and to the signing of the annual report which is considered of significance to the annual report.

On October 16, 2018, an extraordinary general meeting of the Partnership resolved to:

- 1) Replace Danske Private Equity A/S as Manager with Saga Private Equity ApS and
- 2) Replace DPE Partners III ApS as General Partner with Saga III GP ApS

both effective January 1, 2019.



## Financial statements October 1 – September 30

### Accounting policies

The annual report of Danske Private Equity Partners III (USD-A) K/S has been prepared in accordance with the Danish Financial Statements Act for a reporting class B entity and elective choice of certain provisions applying to reporting class C entities.

The presentation of the income statement, the balance sheet and the description of entries has been adjusted according to the Limited Partnership's activities as an investment company in private equity.

The accounting policies applied are consistent with those of last year.

The annual report is in USD. (USD/DKK: 30/9 2018: 644.13 and 30/9 2017: 630.38)

### Income statement

#### Gains/losses on investments in portfolio funds

Gain/losses on investments in portfolio funds includes income from investments (dividend and interest), realised and unrealised revaluations or depreciations of investments in portfolio funds.

#### Gain/losses on other securities and investments

Gain/losses on other securities and investments include realised gains and losses of divestments and unrealised gains and losses on revaluations or depreciations of other securities and investments.

#### Management fee

The management fee includes management fee and performance fee for the period to the Manager, Danske Private Equity A/S.

#### Other administrative expenses

Other administrative expenses include costs paid by the Limited Partnership.

#### Financial income and expenses

Financial income and expenses include interest income and expenses.

#### Tax

The Limited Partnership is not independently liable to pay tax, consequently no tax is charged to the profit and loss account.

## Financial statements October 1 – September 30

### Accounting policies

#### **Balance sheet**

##### **Investment assets**

Investments in portfolio funds are measured in accordance with the IPEV Valuation Guidelines or similar guidelines depending on the country of origin of the portfolio funds according to which investments are measured at the fair value. Revaluations are included in the profit and loss account.

Investments in unlisted private equity funds are valued on the basis of the latest reporting received from the respective sub-funds. The reports from the funds contain a valuation of the private equity fund, including a valuation of each individual portfolio company. The value of a private equity fund consists of the sum of the values of the portfolio companies in which the fund has invested in, and the value of other net assets.

##### **Other debtors**

Other debtors are measured at amortised cost after deduction of write-downs for anticipated losses.

##### **Prepayments and accrued income**

Prepayments and accrued income included in assets primarily comprise prepaid management fee to the Manager, Danske Private Equity A/S.

##### **Other securities and investments, current assets**

Other securities and investments include listed securities distributed from the portfolio funds. The securities are measured to the current market value on the balance sheet date.

##### **Other liabilities**

Other payables include a performance fee to the Manager, Danske Private Equity A/S and administration costs due. Liabilities are measured at net realised value.

##### **Foreign currency translation**

Transactions in foreign currency are translated into USD according to the currency rate ruling on the transaction date.

Accounts receivable and accounts payable in foreign currency are translated into USD according to currency rate rulings on the balance sheet date. Realised and unrealised exchange rate profit margins and losses are booked in the profit and loss account under financial items.

## Financial statements October 1 – September 30

### Income statement

Note	USD 1,000	<u>1/10 2017 - 30/9 2018</u>	<u>1/10 2016 - 30/9 2017</u>
1	Gain/losses on investments in portfolio funds	11,304	11,924
	Gain/losses on other Securities and investments	<u>-31</u>	<u>-48</u>
	<b>Gains/losses in the year</b>	11,273	11,876
2	Management fees etc.	-396	-507
3	Other administrative expenses	<u>-30</u>	<u>-29</u>
	<b>Operating profit</b>	10,847	11,340
4	Financial income	<u>38</u>	<u>9</u>
	<b>PROFIT/LOSS</b>	<u>10,885</u>	<u>11,349</u>
	<b>PROPOSED DISTRIBUTION OF THE PROFIT/LOSS</b>		
	Transferred to retained earnings	<u>10,885</u>	<u>11,349</u>
	<b>TOTAL RETAINED EARNINGS</b>	<u>10,885</u>	<u>11,349</u>

## Financial statements October 1 – September 30

### Balance sheet

Note	USD 1,000	<u>30/9 2018</u>	<u>30/9 2017</u>
	<b>ASSETS</b>		
	<b>FIXED ASSETS</b>		
	<b>Investment assets</b>		
1	Investments in portfolio funds	<u>76,378</u>	<u>91,359</u>
	<b>Total Fixed Assets</b>	<u>76,378</u>	<u>91,359</u>
	<b>CURRENT ASSETS</b>		
	<b>Other securities and investments</b>	<u>0</u>	<u>199</u>
	<b>Cash and Cash equivalent</b>	<u>2,844</u>	<u>2,620</u>
	<b>Total current assets</b>	<u>2,844</u>	<u>2,819</u>
	<b>TOTAL ASSETS</b>	<u>79,222</u>	<u>94,178</u>
	<b>LIMITED PARTNERS' CAPITAL AND LIABILITIES</b>		
	<b>LIMITED PARTNERS' CAPITAL</b>		
5	Paid-up capital from Limited Partners	251,906	251,906
	Distributed to Limited Partners	-361,271	-335,327
	Retained earnings	<u>186,833</u>	<u>175,948</u>
	<b>Total Limited Partners' capital</b>	<u>77,468</u>	<u>92,527</u>
	<b>LIABILITIES</b>		
	<b>SHORT-TERM LIABILITIES</b>		
	Other payables	<u>1,754</u>	<u>1,651</u>
	<b>Total short-term liabilities</b>	<u>1,754</u>	<u>1,651</u>
	<b>Total liabilities</b>	<u>1,754</u>	<u>1,651</u>
	<b>TOTAL LIMITED PARTNERS' CAPITAL AND LIABILITIES</b>	<u>79,222</u>	<u>94,178</u>
6	Related parties		
7	Contingent liabilities, contingent assets and securities		

## Financial statements October 1 – September 30

### Notes

Note	USD 1,000	<u>30/9 2018</u>	<u>30/9 2017</u>
1	<b>Investments in portfolio funds</b>		
	Cost October 1	118,173	125,388
	Additions in the year	775	3,539
	Disposals in the year	<u>-15,162</u>	<u>-10,754</u>
	<b>Cost September 30</b>	<b><u>103,786</u></b>	<b><u>118,173</u></b>
	Revaluations October 1	-26,814	-20,362
	Revaluations on disposals in the year	-11,898	-18,376
	Revaluations in the year	<u>11,304</u>	<u>11,924</u>
	<b>Revaluations September 30</b>	<b><u>-27,408</u></b>	<b><u>-26,814</u></b>
	<b>Carrying amount September 30</b>	<b><u>76,378</u></b>	<b><u>91,359</u></b>
	<b>Specification of revaluations in the year</b>		
	Realised gains/losses on investments in portfolio funds	3,413	17,563
	Unrealised gains/losses on investments in portfolio funds	<u>7,891</u>	<u>-5,639</u>
	<b>Gains/losses on investments in portfolio funds</b>	<b><u>11,304</u></b>	<b><u>11,924</u></b>

#### Investments in portfolio funds

Through investments in portfolio funds the Company has ownership of mainly unquoted investments. The Company has no controlling or significant influence on the portfolio funds in which the Company has invested.

The portfolio funds in which the Company has invested all use common accepted guidelines for measuring the fair value. The measuring of the fair value of the investments in underlying portfolio companies are made by the managers of the portfolio funds.

The value of a private equity fund is measured as the fair value of each investment in portfolio companies owned by the fund with the addition of other net assets in the fund. The valuation of a portfolio company in a private equity fund is based on the industry, market position and earnings capacity, and the (i) the peer group multiple, i.e. the market value of comparable listed companies, (ii) transaction multiple in recent M&A transactions involving comparable companies, (iii) value indications from potential buyers of the portfolio company, (iv) market value if the portfolio company is publicly traded, and or (v) future expected proceeds, if there is a concluded agreement on the sale of the portfolio company.

Usually the Company has no or very little information about specific methods and assumptions used by the managers of the portfolio funds when measuring the fair value of the underlying portfolio companies. At the assessment of the fair value of the underlying portfolio companies reported by the managers, information about the market conditions, company specific information as well as information received through dialog with the managers of the portfolio funds are used.



## Financial statements October 1 – September 30

### Notes

Note USD 1,000

#### 1 Investments in portfolio funds (continued)

The Company invests in venture and buy-out funds. The investments made by the portfolio funds are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs based upon quoted prices for identical assets and liabilities in active markets

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active

Level 3 - Unobservable input

#### Fair value measurements as of September 30, 2018

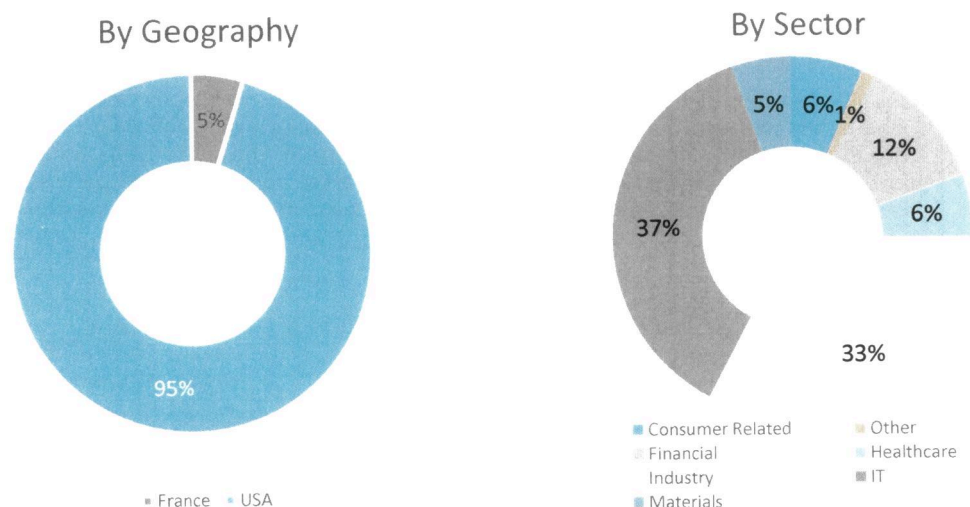
	Quoted prices Level 1	Observable input Level 2	Unobservable input Level 3	Total
Investments in portfolio funds	2,710	0	73,668	76,378
Total	2,710	0	73,668	76,378

#### Fair value measurements as of September 30, 2017

	Quoted prices Level 1	Observable input Level 2	Unobservable input Level 3	Total
Investments in portfolio funds	7,147	0	84,212	91,359
Total	7,147	0	84,212	91,359

The above measurement is based on the fair value of the portfolio funds underlying portfolio companies. The value of other net assets is classified as level 3.

#### The investments divided by Geography and Sector based on fair value September 30, 2018:



## Financial statements October 1 – September 30

### Notes

Note	USD 1,000	<u>30/9 2018</u>	<u>30/9 2017</u>
2	<b>Management fees etc.</b>		
	Management fee	294	401
	Adjustment of provision for performance fee	102	106
	<b>Management fees etc. in total</b>	<u>396</u>	<u>507</u>
3	<b>Other administrative expenses</b>		
	Fee to auditor elected on the Annual General Meeting (incl. VAT)		
	Statutory audit	11	9
	Tax consultancy	7	7
	<b>Total incl. VAT</b>	<u>18</u>	<u>16</u>
	<b>The fund has not had any employees in the financial year</b>		
4	<b>Financial income</b>		
	Interest income	38	9
	<b>Financial income in total</b>	<u>38</u>	<u>9</u>

## Financial statements October 1 – September 30

### Notes

Note USD 1,000

#### 5 Limited Partners

	<u>Commitment</u>	<u>Paid-up</u>	<u>Outstanding Commitment</u>
Limited Partners	<u>270,140</u>	<u>251,906</u>	<u>18,234</u>

The Limited Partnership may make distributions to the Limited Partner, which are subject to a redraw option. As of September 30, 2018 the recallable amounts to USD 0 million.

#### 6 Related parties

##### Manager

Danske Private Equity A/S, Parallelvej 17, 2800 Kgs. Lyngby

*Transactions: Annual management fee and possible performance fee*

##### Limited Partnerships administrated by Danske Private Equity A/S

Danske Private Equity Partners III (USD-B) K/S, c/o Gorrissen Federspiel, Axeltorv 2, 1609 Copenhagen V

*Transactions: The partnerships have syndicated the investments in the portfolio funds.*

##### General Partner

DPE Partners III ApS, c/o Gorrissen Federspiel, Axeltorv 2, 1609 Copenhagen V

*Transactions: Annual administration fee*

## Financial statements October 1 – September 30

### Notes

Note USD 1,000

#### 7 Contingent liabilities, contingent assets and securities

Investment commitments

	Commitment		Outstanding commitment	
	Currency	USD	Currency	USD
Commitment USD	<u>267,294</u>	<u>267,294</u>	<u>5,045</u>	<u>5,045</u>
<b>Total commitment, USD</b>		<b><u>267,294</u></b>		<b><u>5,045</u></b>

The portfolio funds have made distributions to the Limited Partnership, which they have the opportunity to call again at a later time. As of September 30, 2018 the recallables amounts to USD 30.7 million.

The Limited Partnership has no other contingent liabilities, contingent assets or collaterals as of September 30, 2018.

