07 September 2022

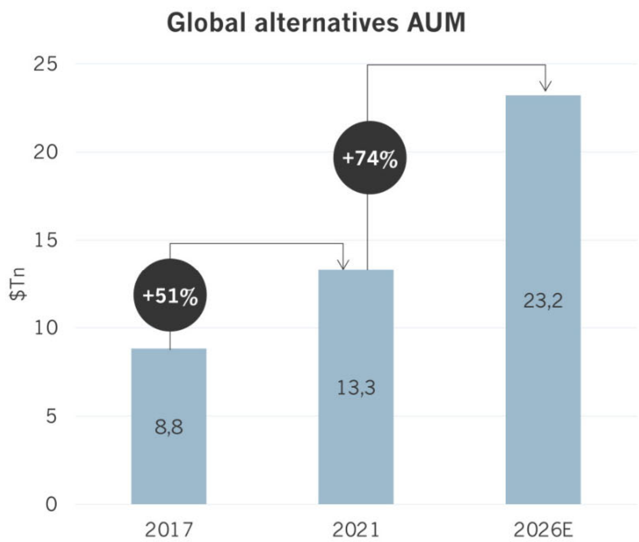
# Commissioned research: CapMan – CMD underpinned organic growth roadmap while M&A could become more prominent growth driver

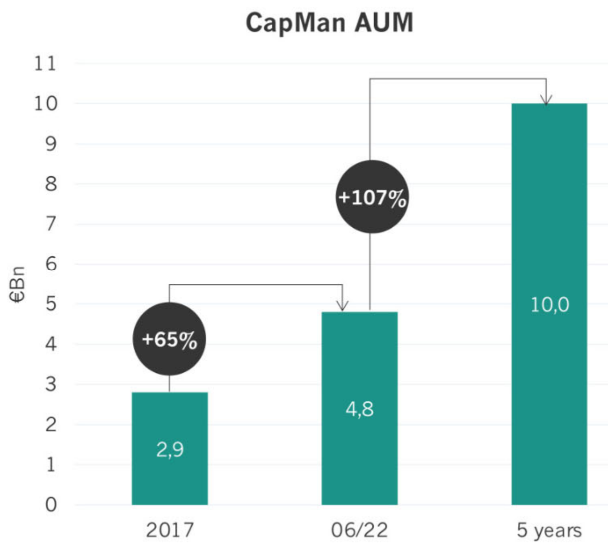
*Marketing material commissioned by CapMan*

CapMan arranged a CMD event today with top management presenting new strategy with ambitious growth targets for the next five years. The company is aiming to leverage its good track record with new product launches and targets to double AuM to EUR 10bn by 2026. We note that M&A component is now considered as more pronounced component when seeking for growth. The company is seeking broad based growth while the key drivers are international investors and real estate products. ESG theme is getting clearly more traction within operations and the company aims to integrate ESG as a core theme in all business activities. The company raised its growth target for the Management Company and Services businesses to, on average, 15% annual growth. However, this target also includes M&A component. With relatively high level of committed but not yet invested capital, the company clearly aims to benefit from the current market turmoil.

**CapMan aims to continue to outperform overall market growth**

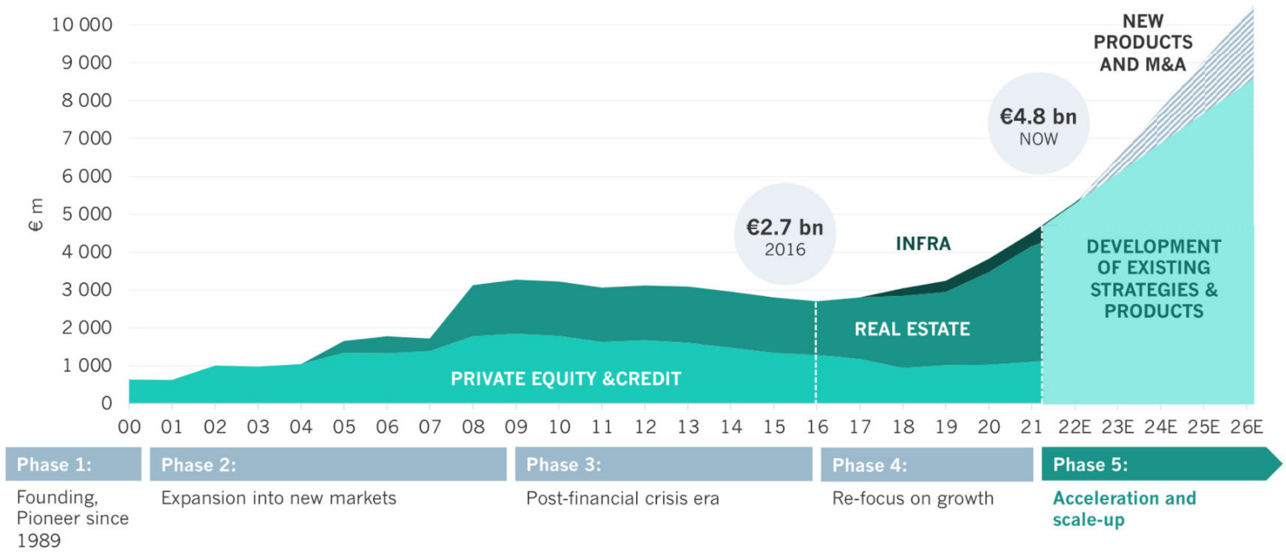
CapMan released new strategy and financial targets ahead of its CMD event on 7 September. Growth target from the Management Company and Services businesses was raised to over 15% p.a., on average (earlier over 10%). Hence, the company aims to continue to outperform the global alternatives AuM growth within next five years.




*Source: Company data*

Main growth driver is the development of existing strategies and products, while the company is aiming also for new products and M&A to speed up its growth. We note that Real Estate aims to increase its AuM by EUR 2bn by 2024 and hence acts as a main growth driver behind targeted growth. When thinking sources of capital, 75% of new capital is expected to be raised from international investors. Existing open-end strategies should contribute 50% of the growth, followed by existing closed-end strategies (30%) and new products and M&A (20%). Hence, we view implicit target to maintain fee level intact ambitious (EUR 10bn AuM target requires ~15% AuM CAGR, in line with targeted growth target).

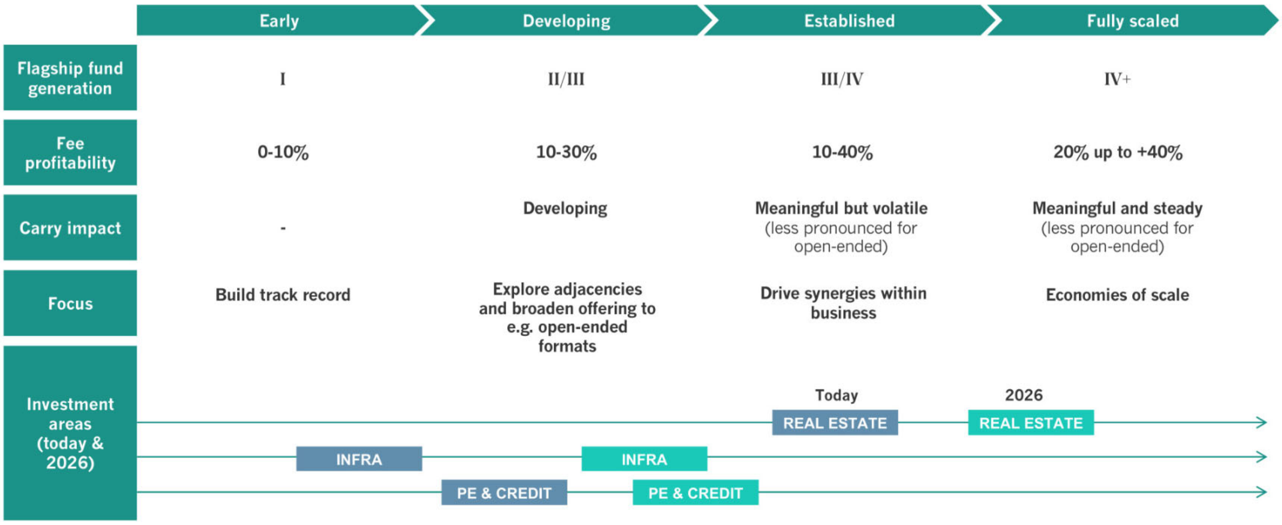



*Source: Company data*

The company is aiming to leverage its good track record in recent years in order to raise capital to new strategies. During 2017-22, 80% of funds were performing according to or above hurdle rate, while the company aims to reach 100% by 2026. In addition, CapMan targets the share of funds in 1$^{st}$ quartile to reach above two-thirds by 2026 (up from 40% in 2017-22 and 8% prior to 2017).

**Larger vintages should offer upside to earnings**

CapMan has been successful in scaling up its businesses, especially within Real Estate. The company aims to increase its share of fee business by 10 pp to 57% by 2026 and to reach fee profit margin of above 40% in five years. We note that Real Estate is clearly ahead of other investment areas when thinking vintage model development and think that other investment areas need substantially higher AuM in order to reach targeted level.




*Source: Company data*

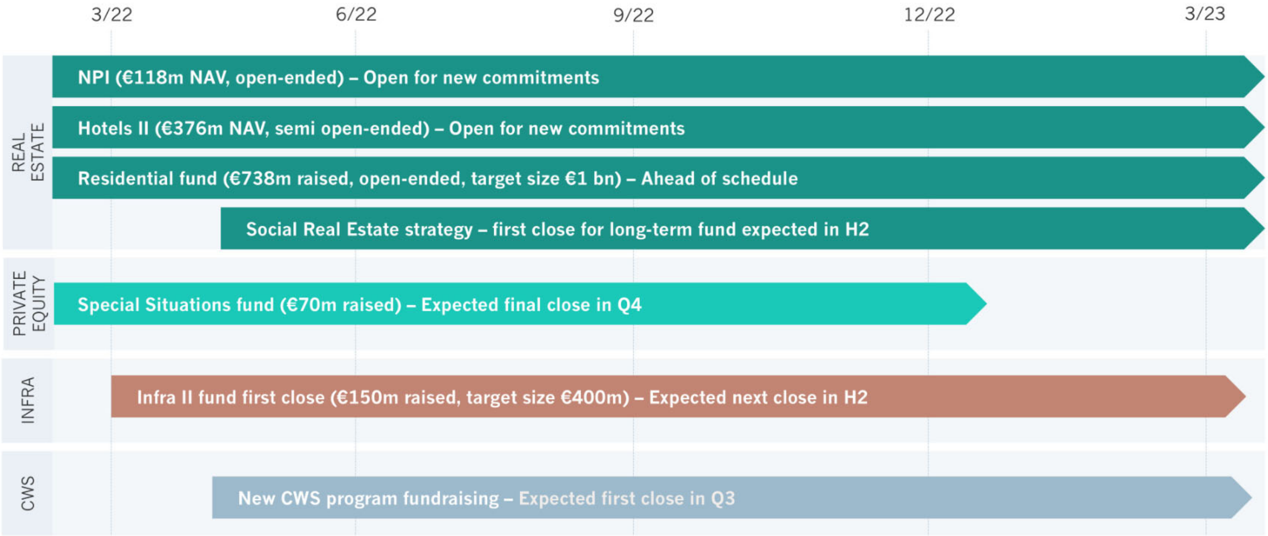
**New long-term financial targets are ambitious when thinking growth**

We view new financial targets ambitious when thinking growth, although those include M&A component (25% of the targeted growth by 2026). However, given investor demand based on Preqin survey, CapMan has a good offering in place which could help when thinking future fundraising.

| Growth of the Management Company and Services business | Return on equity | Equity ratio | Dividend distribution objective |
|---|---|---|---|
| >15%<br>Average annual growth objective<br>(Previously >10%) | >20%<br>(Remains unchanged) | >50%<br>(Previously >60%) | The company's objective is to pay an annually increasing dividend to its shareholders.<br>(Remains unchanged) |
| 2017-H1'22 CAGR: **17%** | 2017-H1'22 average: **16%****** | 2017-H1'22 average: **55%******* | The AGM approved a distribution of **15 cents/share** for 2021<br>Distribution per share has **grown every year since 2012** |
| 1-6/2022: **20%** | 1-6/2022: **40%** | 30 Jun 2022: **48%** | |

*Source: Company data*

Currently (at the end of June) CapMan has 290 limited partners (LPs) of which 43% are pension funds, 20% fund of funds and 12% small institutions. 55% of AuM is currently derived from the Nordics. When thinking near-term AuM growth, majority of the growth is expected to come from Real Estate with four open-ended funds. In addition, the company appeared fairly confident on reaching targeted EUR 400m target size within Infra II (EUR 150m raised) with the help of booming demand. Real Estate is aiming to start to raise next value-added fund at the end of 2023 with EUR 650-700m target size (CMNRE III is EUR 564m).




*Source: Company data*

When thinking Private Equity strategies, Growth has clearly gained good traction in its operations with first fund already in carry. CapMan announced on 7 September that Growth has exited Avidly, which leaves six companies its portfolio of which Coronaria is the clearly largest. Growth fund II is targeting 20-25% IRR and 2.5-3.5x total value to paid in (TVPI). Fund II is in its investment period with currently six companies.

Recently launched CWS Investment Partners program looks like a interesting platform with limited competition in the market. CWSIP I fund raised USD 90m in 2021 and the company aims for vintage setup with the program. CWSIP II should have its first close in Q3.

**We model 10% recurring CAGR for 2021-25E**

We currently model 10% revenue CAGR from the Management Company and Services businesses in 2021-25E. Although we argue that new financial targets are ambitious, we believe the company could reach those with a successful M&A strategy and fundraising. However, there is still high uncertainty due to macro-economic outlook. Well balanced offering and strong track record should help the company when thinking fundraising, while competitive pressure within e.g. Infra and Growth could hamper fee profits. We have a fair value range of EUR 3.1-3.7 per CapMan share.

**Completion date: 07 Sep 2022, 19:37 CET**

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