KBC Securities

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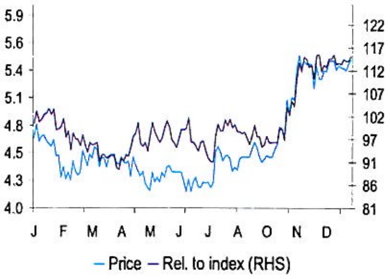
QUEST FOR GROWTH

€ 15m CHF commitment spotlights transition

EQUITY INVESTMENT INSTRUMENTS	CURRENT PRICE	€ 5.46	**BUY**
BELGIUM	TARGET PRICE	€ 6.10	RATING UNCHANGED



Source: Thomson Financial Datastream

Bloomberg	QFG BB
Reuters	QUFG.BR
www.questforgrowth.com	

Market Cap	€ 64.4m
Shares outst.	11.8m
Volume (daily)	€ 54,422
Free float	90.6%

Next corporate event

NAV update 10: 7 January 2011

(€ m)	2007	2008	2009
Net result	0.6	-48.4	18.1
Adj. net result	0.6	-48.4	18.1
Basic EPS (€)	0.05	-4.11	1.53
ROE	0.6%	-41.8%	26.8%
Adj. eq. value	9.87	9.87	7.25
Premium/disc.	14.9%	14.9%	35.9%
DPS (€)	0.05	0.00	0.00
Dividend yield	0.6%	0.0%	0.0%

Tom Simonts
+32 2 429 37 22
tom.simonts@kbcsecurities.be

Summary:
Quest will funnel € 15m into the recently close Capricorn Health-Tech (CHF) fund, marking its single biggest commitment ever. No impact on NAV or TP.

News:
Capricorn closed CHF at € 42m (first closing), with Quest committing a staunch € 15m. Other CHF investors include Dexia Insurance Belgium, FPIM, PMV, SRIW and a number of private investors and universities such as KU Leuven and Université de Liège. CHF aims to raise up to € 100m – € 120m in its final close and will focus on European early- to mid-stage human health-technology companies, such as biopharmaceutical and pharmaceutical drugs, vaccines, medical devices, medical imaging, diagnostics, (research) equipment, nutraceuticals and functional foods.

Our View:
Transition appears fashionable these days, and Quest is no exception: the € 15m commitment equals 14% of NAV (slightly less than the € 16.2m aggregated carrying value of all direct Private Equity investments), which is Quest's biggest commitment to any 3rd Party Fund since its inception. The CHF deal goes hand in hand with Quest abandoning its strategy to pursue direct Life Sciences deals (follow-up capital rounds excluded), prompting the exit of investment manager Will Brooks. What it means for direct PE investments in e.g. the Software & Services remains unclear. Though heavy, the € 15m commitment should easily be funded, as we expect the drawing (90%) period to extend over 5 years: current free cash, a liquid portfolio of listed assets and few direct PE investment will suffice to cover capital calls. Henceforward, Quest will pay a management fee to CHF (we estimate this at between 1.5% and 2%). Since both CHF and Quest are managed by the same management team (both are currently in the process of merging), the CHF commitment risks setting up a double fee cascade. This is an important issue, not only since Quest's current management fee (1.5% of current NAV) is in the process of being (upwardly) revised. Quest's CEO assured that its BoD will avoid such a fee cascade by excluding the € 15m commitment from the valuation base on which the new Management Fee will be determined. Strategically, the ongoing merger of the Capricorn and Quest management teams was labelled a win-win situation, with the win-part for Quest being a much larger access to deal flow. However, with Life Sciences deals no longer in play, that argument is no longer valid. On the bright side, stepping away from direct Life Sciences deals does resolve concerns about how new deals would be divided between the two companies. This is no longer an issue.

Conclusion:
Quest is clearly evolving to a combined investor in 3rd Party Funds and listed assets, thereby straying quite far from the original goal of the Privak statute. As to valuation, despite applying a rough 30% discount (which reflects the relatively high mgmt fee, poor visibility on future exits, high exposure to equity markets, etc ..) current pricing levels leave ample upside (11.3% vs. our PT, with more upside if market momentum continues). NAV per share amounts to € 9.01 with a 39.4% discount. Buy rating and TP are maintained.