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29 November 2021

Chrysalis Investments Limited ("Chrysalis" or the "Company")

Quarterly NAV Announcement and Trading Update

Net Asset Value

The Company announces that as at 30 September 2021 the unaudited net asset value ("NAV") per ordinary share was 251.96 pence.

The above NAV calculation is based on the Company's issued share capital as at 30 September 2021 of 547,273,076 ordinary shares of no par value.

September's NAV represents a 7.7% increase since 30 June 2021. Whilst the quarter to September was relatively quiet in terms of funding rounds, the portfolio saw continued, significant revenue growth. The following investee companies were the most significant drivers of NAV movement in the quarter:

- Starling Bank Limited ("Starling") – which continues to deliver exceptional growth and made its first acquisition in the period to build out its origination capabilities. Post period end Standard Chartered Bank ("Standard Chartered") launched a green investment proposition at COP26– Shoal – powered by Starling's Banking-as-a-Service ("BaaS") offering;
- Wise plc ("Wise") – which successfully debuted on the London Stock Exchange via a direct listing IPO in early July 2021. Over the quarter to September 2021, the shares rose 35% from their closing auction price.;
- Klarna Holding AB ("Klarna") – where growth continued to be strong, with the US delivering more than 300% Gross Merchandise Volume ("GMV") growth in the first three quarters of 2021 (in US dollar terms). The US currently has Buy Now, Pay Later ("BNPL") penetration of only 2%, compared to 5% in the UK, 10% in Australia and 23% in Sweden (Source: Statista); and
- THG plc ("THG") – which saw its market price fall from 610p as of June 2021, to 507p as of September 2021. Further declines occurred post period end which are discussed in more detail below.

Overview

The trading performance of the portfolio over the period continued to be robust and, as the Company's Investment Adviser sees a strong link between revenue growth and subsequent valuation performance of assets within the portfolio, it believes this bodes well for the prospects of the Company's investments.

Portfolio activity

Following a £300m capital raise by the Company earlier in the year, considerable investment activity continued over the quarter. In particular, four new investments were undertaken and one realisation announced:

- in July a $67m investment in cybersecurity asset, Deep Instinct, was made. Deep Instinct is the only company addressing the cybersecurity market with a deep learning product, versus machine learning, which allows greater than 99% accuracy on previously unknown threats and sub 20 millisecond response times. This means it can be deployed as a prevention tool, rather than a reactive response offering;
- in July, the Company invested approximately £45m in Revolution Beauty Group plc ("Revolution Beauty") as part of its IPO. Revolution Beauty's core offering is colour cosmetics, and it operates a "digital first" strategy. Its share price has softened since admission, reflecting investor concerns over industry-wide headwinds in e-commerce, albeit trading has been in-line with expectations;
- in July, Embark announced its sale to Scottish Widows Group Limited (a part of Lloyds Banking Group plc) for £390m, subject to regulatory approval;
- in August, a $65m investment was made in the parent company of InfoSum as part of its Series B scale up round. InfoSum is a data infrastructure company that allows organisations to share data with each other, without putting customer data or personally identifiable information at risk. Recent trading results from a number of tech platforms have shown the impact of Apple's decision to give its customers the right to privacy, effectively curtailing the effectiveness of third-party advertising campaigns. InfoSum's technology has been designed to allow entities the ability to "enrich" their own datasets, without falling foul of growing privacy awareness by consumers, as well as regulation, such as GDPR; and
- in August, the Company made a £40m investment in Tactus Holdings Limited ("Tactus"). Tactus is a consumer technology expert, supplying a range of own and third-party branded IT hardware, predominantly entry-level laptops and high-end gaming PCs, to consumers. There is a substantial opportunity to supplement organic growth with M&A.

Portfolio news

The Investment Adviser believes the most notable news, given the size of the current investment, was the announcement post period end of a strategic partnership between Klarna and Stripe, which will allow retailers using Stripe to activate Klarna in their checkouts within minutes. Initial results from Stripe retailers using Klarna indicate an average 27% increase in sales, with some retailers experiencing up to 40% of Klarna shoppers being new to their brand. It is estimated Stripe processed approximately $350bn of GMV in 2020 (Source: https://backlinko.com/stripe-users), versus Klarna's GMV of $53bn in the same year.

Activity in the BNPL space over the course of 2021 has been significant, namely:

- Square's acquisition of Afterpay for $29bn;
- Amazon's partnership with Affirm (the latter's share price has risen by approximately 100% since, to 19 November 2021); and
- PayPal's acquisition of Paidy in Japan for $2.7bn.

In combination with Klarna's continued strong progress – GMV growth (in USD) of 63% over the first three quarters of 2021, driven by the US – the Investment Adviser believes the ramifications of the Klarna/Stripe relationship could prove material to the way investors consider Klarna's valuation.

Elsewhere, Deep Instinct announced a partnership with Tanium that we believe could be very significant. Tanium manages endpoints for nearly half of the Fortune 100, and this relationship will see Deep Instinct integrated into its Threat Response solution, thereby offering a new, major route to market.

Significant activity occurred at Starling. Following the successful fund raise earlier in the year, Starling bought Fleet, a buy-to-let mortgage lender, which marks the first move into mortgage origination. In addition, it announced its intention to launch "Banking-as-a-Service" (BaaS) into Europe, which will offer the opportunity to supplement traditional banking revenue streams with high-value, recurring income. Post period end, Standard Chartered launched its new green savings platform, Shoal, at COP26, which is powered by Starling's BaaS offering. Standard Chartered expects to expand Shoal into Europe in due course. In July it was named the "Best British Bank" for the fourth year running and recently committed to offsetting its carbon emissions from 2021, alongside other ESG commitments.

Tactus was active on the M&A front, acquiring two businesses – BIST and Chillblast – to further build out its offering. M&A was one of the rationales for it raising primary capital on the Company's initial investment, and therefore early execution in this regard is encouraging.

THG

THG's share price fell from 610p as of the 30 June 2021 NAV statement to 507p as of 30 September 2021. Post period end, the share price suffered further heavy selling pressure falling below 200p in November. In the normal course of business, the Investment Adviser would not expect to comment on individual names in detail, but given the magnitude of this move, feels some commentary is appropriate. While well documented, the reasons appear to centre around:

- concerns over corporate governance;
- uncertainty surrounding the possible exercise of the SoftBank option to buy 19.9% of Ingenuity and the implicit £4.5bn valuation of the division, as well as prospects for its future growth; and
- a modest, mainly FX driven downgrade to EBITDA.

In response, THG has:

- made several moves designed to improve corporate governance, including: a commitment to rescind the founder's Golden Share, which effectively prevents an unwanted takeover in the next two years, and splitting the role of CEO and Chairman, with a process underway to identify an independent candidate to fill the latter;
- appointed a SoftBank representative to its board; and
- upgraded expectations for Ingenuity growth.

As the representative of major shareholders, the Investment Adviser has engaged with the company to support its plans, particularly in respect of corporate governance, and is encouraged by the company's optimism surrounding Ingenuity. As part of its normal process, the Investment Adviser has revisited its investment case and believes there has been no substantive change to the investment thesis since IPO. Given the current valuation, the Investment Adviser believes there is significant upside potential in THG shares. As a result, it has increased the Company's position in THG following the quarter end.

The Company also notes the Wise share price has fallen by approximately 29% since the end of the period.

Cash Update

As of 24 November 2021, the Company has approximately £24m of cash available. In addition, the Company also has significant further liquidity available, most notably its holdings in listed assets, which currently total approximately £147m, and, subject to regulatory approval being provided, the Company will receive its share of the proceeds from the sale of its shareholding in Embark. In regards to the latter, the Investment Adviser notes comments from Lloyds Bank plc suggesting this might take place in 4Q21.

Portfolio Composition

As of 24 November 2021, the portfolio composition was as follows:

Portfolio Company	% of investment portfolio
Klarna	27.6%
Starling Bank	15.5%
wefox	7.8%
You & Mr Jones	7.1%
Smart Pension	6.5%
Wise	5.1%
Graphcore	4.6%
Embark	4.2%
InfoSum	3.6%
Deep Instinct	3.6%
THG	3.1%
Tactus	2.9%
Revolution Beauty	2.7%
Featurespace	2.6%
Secret Escapes	1.8%
Sorted	1.3%
Growth St	0.1%
Cash	1.8%

Source: Jupiter Investment Management (UK) Limited. Holdings size, as of 24 November 2021, are calculated using 30 September valuations, adjusted for FX as of 24 November 2021 and capturing transactions concluded post the NAV calculation period, and thus using cash as of 24 November. For listed shares, the holding values are based on closing share prices as of 24 November 2021, namely: THG at 182.9p; Wise at 729p; and Revolution Beauty at 129.5p. Due to rounding the figures may not add up to 100%.

Investment Adviser alignment

Based on the performance of the Company's assets, which is still subject to final audit, there is likely to be a performance fee payable for the year, which historically has been paid in cash. In order to further strengthen the alignment of the Company's portfolio management team with the subsequent performance of Chrysalis, and also to retain cash in the Company, the portfolio management team of the Investment Adviser has elected, with the agreement of the Investment Adviser and the Board, to take the deferred element of its remuneration in new Chrysalis shares to be directly issued by the Company.

The portfolio management team has agreed for this year to have shares issued to it at the closing share price as of 30 September 2021 of 267p, a premium to NAV, which reflects the team's confidence in the prospects for the portfolio, as discussed below. Further details on this have been separately announced by the Company today.

Outlook

The late-stage, private market continues to grow and develop. Over the nine months to September 2021, fund raising in the Company's target European markets hit £38 billion (Source: Pitchbook), more than double the year to December 2020. Participation in this space by a major crossover investor has roughly doubled over the last two years (measured as number of deals with crossover participation), showing the growing interest in this type of financing by companies, and recognition from investors that late-stage investing offers significant opportunity.

Chrysalis is exceptionally well placed to take advantage of this growing market, given its established track record and origination capability.

The portfolio continues to exhibit exceptional growth metrics, substantially outperforming listed indices. Over the last two years, the Investment Adviser estimates the portfolio has compounded out its revenue growth at approximately 3 times that of the NASDAQ, while the FTSE All Share has seen revenues decline by 11% (Source for indices: Peel Hunt).

The Investment Adviser believes revenue growth is the key driver of valuation in the medium-term, and so ensuring a continuation of growth is a key focus.

An analysis of the Total Addressable Market ("TAM") of the Company's portfolio suggests a revenue opportunity of over $1 trillion, with current penetration of less than 1%. Given the underlying markets making up this portfolio TAM are typically growing, and the ability of most Chrysalis investee companies to address adjacent verticals via technology, the Investment Adviser has considerable confidence that portfolio revenue growth will continue to be robust.

Investment Adviser Comments

Nick Williamson and Richard Watts (co-portfolio managers) comment:

"NAV growth in the quarter continued to be robust. While we saw limited activity in terms of funding rounds in the period, considerable progress and growth was achieved by several of the portfolio companies that underpinned the NAV performance. Typically, growth remains strong across our investee companies, and in some cases is exceptional. In addition, for some of our larger units, we believe valuations look undemanding versus listed peers, particularly given their growth rates.

Our origination process has grown in capability over the course of the year and the pipeline remains strong. We currently have two modest follow-ons that we are likely to be making before year end, and continue to receive numerous opportunities concerning potential new investments.

With a portfolio of potent growth companies, we remain optimistic regarding prospects for the Company in the year ahead."

Factsheet

An updated Company factsheet will shortly be available on the Company's website:
https://www.chrysalisinvestments.co.uk

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A copy of this announcement will be available on the Company's website at https://www.chrysalisinvestments.co.uk

The information contained in this announcement regarding the Company's investments has been provided by the relevant underlying portfolio company and has not been independently verified by the Company. The information contained herein is unaudited.