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**The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 as amended by The Market Abuse (Amendment) (EU Exit) Regulations 2019.**

21 February 2022

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

Quarterly NAV Announcement and Trading Update

## Net Asset Value

The Company announces that as at 31 December 2021 the unaudited net asset value ("NAV") per ordinary share was 237.86 pence.

The above NAV calculation is based on the Company's issued share capital as at 31 December 2021 of 572,483,160 ordinary shares of no par value.

December's NAV represents an 5.6% decrease since September 2021. The following investee companies were the most significant drivers of NAV movement in the quarter:

- Starling Bank Limited ("Starling") – where growth in deposits continues to be very robust. In addition, comparable companies have seen strong share price performances, as expectations of increasing base rates have led to optimism over likely profit upgrades in the sector;
- wefox Holding AG ("Wefox") – which exhibited exceptional growth during 2021, partly driven by recent M&A;
- Klarna Holding AB ("Klarna") – despite strong growth continuing into the third quarter, where year-to-date Gross Merchandise Volume ("GMV") growth over the first nine months of 2021 was 63% in US dollar terms, with the US growing at over 300%, the valuation has been modestly reduced. This reflects weakness in certain comparative companies' valuations; and
- THG plc ("THG") and Wise plc ("Wise") – which saw share price falls of 55% and 30% respectively.

## Overview

The aggregate trading performance of the portfolio over the period remained robust. Valuations of growth companies in global stock markets came under pressure over the quarter, as investors became increasingly concerned over the outlook for inflation and the likely quantum of interest rate rises that may be deemed necessary by Central Banks to control price rises. While this has had some impact on valuations of certain portfolio companies, in a number of cases the rates of growth being exhibited by the Company's investments have offset any valuation compression. In addition, foreign exchange movements caused a negative impact on the gross assets of over one percentage point.

## Portfolio activity

The Company raised approximately £60 million in December 2021. Some of these proceeds were deployed into follow-on investments, as indicated during the fund raise. This included:

- In November, the Company invested approximately £12.5 million in Sorted to continue to expand the company's offering and support growth; and
- In December, the Company invested an extra £15 million in Smart Pension, where an opportunity arose to acquire a further stake, which the Investment Adviser decided to pursue given the performance of the company since initial investment

Portfolio news

The Investment Adviser was encouraged by the trading performance and operational progress of several key holdings over the period:

Wise released a Q3 trading update (calendar Q4) on 19 January which was stronger than expected. Over 4 million customers transacted on Wise over the period with the number of active personal customers increasing +26% year-on-year to 4.1m while the number of active business customers increased +39% year-on-year to 250k. Transaction volume in Q3 was £20.6bn, which was more than double some consensus estimates, and represents the highest level of sequential volume ever added quarter-on-quarter.

Revenues increased +34% over the period to c£150m, which was c8% ahead of market expectations, and the Investment Adviser was encouraged by the fact that management increased its full-year revenue guidance to +30% (from mid-to-high twenties at the interim stage).

Another listed asset, Revolution Beauty, also released a positive trading update in January which covered the key Christmas trading period. From 1st November to 31st December 2021, revenues increased +41% which was in line with market expectations. The company is making significant progress, growing internationally and expanding key partnerships. It has confirmed that it will roll out into over 2,800 Walgreens' stores in Q1 FY23 and launch its newly established haircare product, Plex, across 870 Target stores towards the end of January. The Makeup Revolution brand commences its launch into Boots on 21st February 2022 and will roll out into the top 336 Boots stores across the UK; this will see Revolution Beauty sell its products across four categories within the UK's leading Health and Beauty retailer. Revolutions Beauty's direct-to-consumer division has also been performing well and revolutionbeauty.com sales grew +50% through December.

Management confirmed full-year guidance in this trading update, and the Investment Adviser views this performance as extremely encouraging given the difficult backdrop and trading environment being experienced by the retail industry.

Despite a very strong comparison period, Klarna continues to report exceptionally robust rates of organic growth. Global GMV over the first nine months of 2021 was $57.3bn, which represented a growth rate of +63% year-on-year and the US, which is Klarna's fastest growing market, generated over 300% GMV growth, with customer numbers exceeding 21 million.

Net operating income over the period was $1.2bn, compared to $742m in the prior year (+62% year-on-year), implying stable take rates. Growth continues to be supported by M&A and strong product innovation. Partnerships with Stripe and Billie were announced during the period and B2B services are gaining traction. The Investment Adviser believes Klarna continues to develop an unparalleled growth proposition for retailers across content creation partnerships, dynamic and search advertising, and virtual shopping.

Listed peers did de-rate during the period and have continued to de-rate post period end but their strong share performance prior to this is noted. Affirm's share price, for example, increased +77%

through Q3 (from $67 to $119). Affirm recently reported a mixed set of financials: industry analysts were generally encouraged by solid revenue growth but viewed guidance around lower "take rates" negatively. The latter is considered a stock specific issue.

Starling Bank continues to be a stand-out performer within the portfolio and the company enters 2022 well positioned to exploit a material opportunity. As of early January, Starling had opened over 2.7 million accounts to date, including 475,000 accounts for small and medium-sized enterprises and the company's UK SME market share was over seven per cent, around half the market share of Barclays. The deposit base stood at £8.4 billion, up from £4.8 billion a year earlier, and lending had increased from £1.9 billion to £3.1 billion.

Starling is now consistently profitable, growing rapidly and is well poised to continue taking market share from the UK's high-street banks. Starling expects a continued expansion of its lending capability through 2022, driven by strategic forward flow arrangements, organic lending across various assets classes and a targeted M&A strategy.

Starling is also entering an exciting new phase, with the launch of its Software as a Service ("SaaS") proposition, taking Starling's software to banks globally. With SaaS, the company will offer partners the benefit of Starling's advanced technology to use as their own. This was demonstrated last year by the partnership with Standard Chartered Bank to launch the latter's new "Shoal" product.

You & Mr Jones recently announced that it has changed its name to The BrandTech Group. The company surpassed $500 million in revenue and 5,000 employees in 2021, which the Investment Adviser views as a landmark achievement. The BrandTech Group is the world's number one enterprise-level marketing technology group, and the largest global digital partner for some of the world's biggest brands. There has been speculation that the company may consider an IPO and David Jones (CEO) publicly stated that 'this is one option along with another funding round, or major game-changing acquisition'.

## Cash Update

As of 18 February 2022, the Company had approximately £65m of cash available. In addition, the Company also has significant further liquidity available, most notably its holdings in listed assets, which currently total approximately £107m. The sale of Embark to Lloyds Banking Group plc is now complete and the current level of cash available accounts for this transaction and the payment of fees.

## Portfolio Composition

As of 18 February 2022, the portfolio composition was as follows:

| Portfolio Company | % of investment portfolio |
|---|---|
| Klarna | 23.8% |
| Starling | 18.5% |
| wefox | 10.3% |
| Smart Pension | 8.3% |
| The BrandTech Group | 6.0% |
| Graphcore | 4.5% |
| Wise | 3.6% |
| Deep Instinct | 3.3% |
| InfoSum | 3.2% |

| | |
|---|---|
| Tactus | 3.0% |
| Featurespace | 2.9% |
| Revolution Beauty | 2.4% |
| Sorted | 2.3% |
| THG | 1.9% |
| Secret Escapes | 1.4% |
| Growth Street | 0.0% |
| Cash | 4.5% |

Source: Jupiter Investment Management (UK) Limited. Holdings size, as of 18 February 2022, are calculated using 31 December valuations, adjusted for FX as of 18 February 2022 and capturing transactions concluded post the NAV calculation period, and thus using cash as of 18 February. For listed shares, the holding values are based on closing share prices as of 18 February, namely: THG at 113p; Wise at 558p; and Revolution Beauty at 117p. Due to rounding the figures may not add up to 100%.

## Outlook

Conditions in the private growth market remain buoyant, with minimal evidence that the turmoil in stock markets is feeding through into significant curtailment of demand for high-quality assets, underpinning the Investment Adviser's view that investment horizons are longer than those typically prevalent in public markets. With a robust liquidity position and a number of major positions in the portfolio demonstrating strong growth, the Investment Adviser is confident in the ability of Chrysalis to drive meaningful NAV growth in the medium-term.

## Investment Adviser Comments

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

*"The decline in NAV over the period was primarily driven by the underperformance of our listed names, as well as a modest mark down in the valuation of Klarna. We have commented extensively regarding the performance of THG previously but, despite delivering strong numbers, the extent of Wise's de-rating is disappointing. We believe it has been caught up in the wider sell-off of technology and growth companies. Elsewhere, the unlisted portion of the portfolio has seen some strong performances, particularly from Starling and wefox, which is based on their exceptional rates of growth that currently show little sign of diminishing. The overall impact on NAV has been further limited by some of our structures, which help to mitigate downside. Despite on-going volatility in listed markets, we do not see any fundamental deterioration in the growth prospects of the portfolio, which we believe is the most important determinant of long-term value creation for our investee companies.*

*Wise is an exemplar of what we look for: a company sharing the benefits of its technology between consumers, via lower prices and a better experience, and shareholders, via improved financial results, which has strong network effects. As the company becomes bigger the network effects get stronger as the company shares the value with users in terms of lower fees, faster transfer speeds and new currency routes, for example, and, in this way, creates a flywheel effect to drive continued growth. Our belief is that the company should not deviate from this strategy, after all it is what has made it so successful. Notwithstanding its strong operational performance, the stock market is now valuing Wise at approximately half the level as of September. We are hopeful that this valuation is just a moment in time.*

*Many of Chrysalis's other investments, such as Klarna, Starling Bank and wefox, for example, have similar network effect characteristics to Wise and are also disrupting huge markets. As we have stated previously, we firmly believe that we are still at the start of digital disruption and, if we are correct, we should expect our portfolio of digital market leaders in their sectors to provide exceptional long-term growth. It is our strong belief that this is the key attraction of Chrysalis; our investee companies are in the foothills of a significant revenue opportunity.*

*Recent history suggests that stock markets can be a very unforgiving environment for those companies prioritising growth over near-term profitability and the market phases where there is little appetite to invest in these types of businesses can dramatically increase their cost of capital, via lower share prices, and inhibit their ability to continue to grow quickly. It's for this reason that Chrysalis is an attractive partner for our investee companies. The ability to provide long term, supportive capital is critical in enabling these highly disruptive companies to invest and grow. If stock markets fail to appreciate the true value of these businesses many more will likely choose to remain private for longer or, indeed, return to the private market. Chrysalis is very well positioned for such an outcome."*

## 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.