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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 which forms part of domestic law in the United Kingdom pursuant to The European Union Withdrawal Act 2018, as amended by The Market Abuse (Amendment) (EU Exit) Regulations 2019

23 May 2022

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

Quarterly NAV Announcement and Trading Update

Net Asset Value

The Company announces that as at 31 March 2022 the unaudited net asset value ("NAV") per ordinary share was 211.76 pence.

The above NAV calculation is based on the Company's issued share capital as at 31 March 2022 of 595,150,414 ordinary shares of no par value.

March's NAV represents an 11.0% decrease since December 2021, and a 1.8% increase since the Interim NAV as at 21 March 2022. The following investee companies were the most significant drivers of the movement in NAV over the quarter:

- The Brandtech Group ("Brandtech") –saw an upward revision in valuation, supported by revenue and profit growth that has continued at what the Investment Adviser considers to be exceptionally strong levels, both on an absolute basis, and in comparison to listed peers;
- Starling Bank ("Starling") – saw a modest increase in valuation, and is now held at a valuation in line with its recent primary round of £2.5 billion;
- Klarna Holding AB ("Klarna") – notwithstanding its strong Gross Merchandise Volume ("GMV") growth over 2021 of 51% in US dollar terms, its valuation has been written down materially, mainly reflecting weakness in the share price performances of its listed comparators. The Company can confirm that the March NAV is based on a valuation for Klarna of approximately $30 billion;
- Deep Instinct and InfoSum – both saw write downs in valuation, mainly due to weakness in their listed comparative sets; and
- THG plc ("THG") and Wise plc ("Wise") – which saw share price falls of 60% and 35% respectively.

Investment Adviser Comments

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

"We are very pleased with the robust rates of revenue growth – approximately 80% per annum on a blended basis – we are seeing across the portfolio, as we believe it will be the key determinant of future NAV performance. Many of our companies are only in the early stages of making an impact on their

sizeable addressable markets, which we expect to support their growth aspirations into the medium term.

Listed market valuations have remained under pressure, a trend which started in September 2021 and has continued into the current quarter, reflecting uncertainty over a number of key variables including economic growth, interest rates and inflation. It therefore feels prudent to adopt a conservative stance with respect to strategy, and a key focus for us over the coming quarters will be supporting our companies in pursuing their growth objectives.

As detailed above, we have given more colour on the valuation levels of our two largest assets, Klarna and Starling. Together, these holdings account for approximately 40% of the Company's gross investable assets, which should give investors significant valuation certainty regarding a material part of the portfolio."

<u>Overview</u>

The pressure on the valuations of growth companies in global stock markets that commenced in the previous quarter continued, and in many cases increased. Investor concerns over the likely trajectory of the interest rate rises required to tame growing inflation expectations were heightened by the impact of the Russian initiated war in Ukraine, which has led to supply constraints in certain key global commodities.

Public market valuations form a significant input into the Company's valuation process. The quarter to March 2022 saw some significant declines in the share prices of many of the comparable companies used by the valuer, for the reasons outlined above, which have been reflected in the assessment of the March NAV.

The blended average revenue growth of the portfolio remains strong, at approximately 80% per annum, with four portfolio companies delivering over 100% per annum. The Investment Adviser believes that growth will be the main driver of NAV in the medium term, and logic suggests better-than-market rates of growth should help to mitigate valuation multiple compression.

In addition, the portfolio benefits to some degree from investment structures that have provided downside protection to the valuations of companies comprising over 15% of the invested portfolio.

There was a negligible impact from foreign exchange movements.

<u>Portfolio activity</u>

Unlike previous quarters, which have focused on investment, the quarter to March 2022 saw no new investment, but three realisations.

The Company received £57.2 million of net proceeds from the sale of Embark Group Limited ("Embark") to Lloyds Bank plc in January 2022. A residual holding in Rowanmoor Group Limited – previously a subsidiary of Embark – has been retained, but given this is held at a notional amount, this transaction effectively marks the Company's first full realisation.

While the Investment Adviser remains optimistic over the prospects for continued growth in Wise plc, and is encouraged by its trading performance, it took the opportunity to sell part of the Company's stake in March to raise cash, both given increased market risk with the commencement of the war in Ukraine, and with a view to funding a follow-on in Starling, detailed below. This raised approximately £12.2 million at an average share price of approximately 500p.

Following an initial repayment of £588,000 from the liquidation of Growth Street, which was received in December 2021, the Company received a further £496,000 during the period. This means that approximately £1.1 million has been recovered for investors, broadly in line with expectations.

Taking the above into account, the quarter to March 2022 saw a net realisation of approximately £70 million. Post period end, an investment of £10 million was made in Starling's £130.5 million fundraise at a pre-money valuation of £2.5 billion.

Portfolio news

Many of the Company's key assets continued their strong operational progress over the period.

Starling's funding round, which completed in April, was accompanied by statistics that showed it accounted for 7.5% of the UK SME banking market (by numbers of accounts), which we believe is approximately half the market share of Barclays plc. This has been achieved in less than five years from the launch of its business banking capability. Although this fundraise was announced post period end, the Investment Adviser had sight of this during the period, hence Starling being valued at the primary funding round in the March NAV.

Klarna released its annual report to December 2021. Highlights included 147 million active users globally, which has doubled since the end of 2017, with US users growing fivefold since 2019. In addition, there has been a 68% increase in purchase frequency in mature markets over the last three years and over 240% increase in new markets.

These statistics are key for Klarna. GMV growth is the main driver of revenues, and can effectively be considered the product of the number of users, multiplied by purchase frequency, multiplied by average order value. This information demonstrates Klarna's progress in enhancing two of the key inputs of GMV growth.

Over 2021, GMV grew 51% with revenue rising by 48%, both in USD terms. While credit losses increased as a percentage of GMV from 56 basis points ("bps") in 2019 to 67 bps in 2021, the majority of this increase stemmed from volume growth in new markets, which were expected to demonstrate higher loss rates. Thus on an underlying basis, credit performance improved.

Given the significant proportion of the portfolio represented by Klarna, the Investment Adviser is aware of shareholder interest in the valuation of this asset and how comparisons can be drawn from the listed market. With the acquisition of Afterpay by Block Inc, the industry is left with only one material listed buy now pay later ("BNPL") operator in Affirm Holdings Inc ("Affirm"). Affirm has seen significant share price falls over the quarter, from approximately $100 per share to approximately $46 per share by 31 March, with further falls to approximately $23 per share by mid-May.

However, the Investment Adviser would highlight the following:

- "Pay Now", the use of Klarna to check out with no use of credit, now accounts for 40% of GMV. The Investment Adviser views this channel as having similarities to payment processing, thus implying a pure BNPL peer group assessment for Klarna may be misleading; and

- Affirm and Klarna have differing business models, including areas such as loan duration and initial size, but also in funding. Whereas Affirm relies on warehousing and subsequent securitisation of its loans, Klarna is a regulated bank. This means the latter has access to customer deposits to fund its loans, which form the bulk of its liabilities book. This potentially has ramifications, both in terms of relative funding costs, and availability of funding.

Smart Pension announced the acquisition of Stadion Money Management ("Stadion") in January, following its series-D funding round. Stadion is based in the US and offers personalised, digital retirement solutions to advisers, employers and customers. The transaction is expected to complement Smart's existing offering, while increasing its presence in the significant US market. In addition, Stadion will bring additional assets under management, which have grown 2,000% over the last three years.

Graphcore has continued to progress its technology programme and announced in March the launch of the Bow IPU. Bow is the world's first Wafer-on-Wafer processor – effectively stacking wafers on top of one another to create a 3D processor – and is expected to deliver up to 40% higher performance and 16% better power efficiency compared with its predecessors. The company continues its drive to successfully monetise its products.

Post period end, Worldpay's Fraudsight – which is powered by Featurespace – won The Card and Payments Awards' "Best Technology Initiative". Worldpay is the number one global merchant acquirer, processing 40 billion transactions per annum.

During the period Tactus announced the acquisition of online gaming and technology retailer Box, which has a customer base across the UK and Europe. Box takes the group's headcount to over 350 individuals, adds £100 million of revenues, and its purpose built 120,000 sq ft logistics centre significantly expands the scale of Tactus' supply chain and operations across the UK and beyond, while providing enhanced capacity to accommodate future growth.

As a result of organic growth and this significant acquisition activity, Tactus has experienced very strong revenue growth over the course of the last year.

Deep Instinct participated in 2022 MITRE Engenuity's ATT&CK Evaluations for the first time, following the inclusion of a protection component to the test, rather than just a reactive "assumed breach" test. The test emulated the malicious activities of certain threat groups, against which Deep Instinct demonstrated a 100% prevention score, as announced in March.

Revolution Beauty detailed a trading update for its full year ended February 2022, which showed revenues grew 42% over the period. While this was marginally below expectations, given the industry-wide headwinds discussed above, the Investment Adviser believes this was a good performance. EBITDA forecasts for the current financial year remain unchanged.

In April, THG released its full year 2021 results and a 1Q22 trading update. Over 2021, revenues were in line with expectations, but margins were under pressure due to an increase in whey prices in the nutrition division, compounding industry wide inflation in other areas, such as freight costs. The company expects this to persist into the first half of 2022 and it triggered approximately 10% EBITDA forecasts downgrades for the full year.

Ingenuity Commerce grew revenues to £45.4 million over 2021. While this was lower than the £50 million expectations, this still represented 135% growth year-on-year and the company reconfirmed a forecast of circa £110 million for 2022. In addition, THG acknowledged it had received several bid approaches, which the Investment Adviser believes endorses its view that the company's valuation has become overly depressed, and the share price responded positively to this news.

Subsequently, on 19 May, the board of THG confirmed it had rejected an indicative, non-binding proposal for the entire issued and to be issued share capital of the company from the Belerion Consortium at a valuation of 170 pence per share. The same day, Candy Ventures Sarl, the investment vehicle of Nick Candy, also confirmed it was in the early stages of considering a possible offer for the Company.

In January, Wise released a trading update for the quarter to December 2021, detailing 38% growth in volume year-on-year, and a 34% increase in revenue, despite cutting prices to customers materially. This led the company to upgrade its revenue growth guidance for its full year to March 2022 to approximately 30%, from “low to mid 20s” in the previous quarter.

Cash Update

As of 19 May 2022, the Company held approximately £62m of cash. In addition, the Company also has significant further liquidity available, most notably its holdings in listed assets, which currently total approximately £82m.

Portfolio Composition

As of 19 May 2022, the portfolio composition was as follows:

Portfolio Company	% of portfolio
Starling	21.1%
Klarna	18.9%
wefox	11.2%
Smart Pension	8.9%
The Brandtech Group	8.6%
Graphcore	4.9%
Featurespace	3.2%
Tactus	3.1%
InfoSum	2.7%
Deep Instinct	2.6%
Revolution Beauty	2.4%
Sorted	2.3%
THG	2.1%
Wise	1.9%
Secret Escapes	1.2%
Growth Street	0.0%
Rowanmoor	0.0%
Cash	4.9%

Source: Jupiter Investment Management (UK) Limited. Holdings size, as of 19 May 2022, are calculated using 31 March valuations, adjusted for FX as of 19 May 2022 and capturing transactions concluded post the NAV calculation period, and thus using cash as of 19 May. For listed shares, the holding values are based on closing share prices as of 19 May, namely: THG at 116p; Wise at 353p; and Revolution Beauty at 108p. Due to rounding the figures may not add up to 100%. The above percentages are based on an aggregate portfolio value (including cash) of approximately £1.27 billion.

Outlook

Pitchbook data indicates that the value of deals completed in the late-stage venture space in Chrysalis's key European markets grew year-on-year over the first quarter of 2022. The Investment Adviser views this as a backward looking indicator and expects the effects of volatility in listed markets, which has increased further post period end, will filter through to private markets. The Investment Adviser believes this is likely to manifest itself in the following ways:

- A renewed focus on the fundamentals of investment cases, and thus increased selectivity in deal participation. This is likely to involve an emphasis on companies with strong fundamentals and unit economics, with a view to the potential characteristics of businesses as they mature;
- Some reassessment of growth valuations that in certain cases had become stretched; and
- The likely increased prevalence of investor protections in deal structures, such as liquidity preference.

The Investment Adviser notes that growth valuations have already begun their "reset", as shown by the reduction in the Company's NAV over the last two quarters, reflecting the independent valuer's remit to determine fair value. Although growth valuations have continued to decline post period end, the example of Starling, which concluded a funding round in April at nearly twice the valuation of the year before, shows that fast growth is able to counteract valuation compression in certain circumstances.

With that in mind, the Investment Adviser views the growth being delivered by the portfolio as a critical determinant of likely NAV performance over forthcoming periods.

With regard to investors becoming more selective, the Investment Adviser believes Chrysalis has investments in many exceptional companies, with a number demonstrating best-in-breed characteristics. In addition, the Investment Adviser's due diligence process typically involves a focus on strong unit economics. While over 40% of the Company's portfolio is profitable, the Investment Adviser believes that the rest of the investments also have the ability to scale successfully into profitable and cash generative businesses in the medium term.

Factsheet

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

-ENDS-

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

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