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21 November 2022

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

Quarterly NAV Announcement and Trading Update

Net Asset Value

The Company announces that as at 30 September 2022 the unaudited net asset value ("NAV") per ordinary share was 147.79 pence.

The above NAV calculation is based on the Company's issued share capital as at 30 September 2022 of 595,150,414 ordinary shares of no par value.

September's NAV represents a 15.69 pence (9.6%) decrease since 30 June 2022 and a 41% decline over the Company's financial year to 30 September 2022.

Key highlights

Key drivers of the Q4 NAV performance were:

- Following the successful completion of primary funding rounds, and the more resilient performances of listed peers' share prices, Deep Instinct and Featurespace were marked up

- Starling, Graphcore and InfoSum were marked down following a derating of their relevant listed peers

- The Company's largest holdings continued to make excellent progress and trade well against a challenging backdrop, during the quarter to September. Revenue growth across the portfolio was strong over the financial year and is projected to be 53% on a weighted average one-year forward basis

- NAV decline of 41% over the financial year to 30 September 2022, predominantly driven by the down-round undertaken by Klarna versus a 27% decline in NASDAQ and a 62% decline in the GS Non-Profitable Tech Index

- Private assets contributed to a 71.86 pence decline in the NAV per share over the financial period to 30 September 2022 with listed assets contributing to a 31.90 pence decline. The NAV per share captures a weighted average mark down of individual assets' peak valuations of approximately 50%. Protection mechanisms extant in certain assets have limited the impact of these mark downs on the NAV per share

- Five portfolio companies have raised a total of approximately $1.5bn over the calendar year to date. Despite extremely difficult funding markets, portfolio companies have continued to attract significant investment, including from new holders. The Investment Adviser believes this demonstrates the strength of the underlying investment cases. Of these five rounds, only that of Klarna was undertaken at a level below its prevailing carrying value, this having been written down by approximately 35% before the down-round. Chrysalis contributed $45m of primary capital to Starling Bank, Klarna, Featurespace and Deep Instinct, representing just 3% of total capital raised. The late-stage nature of the majority of the portfolio, and thus typically diverse shareholder lists, enables the Investment Adviser to be efficient in the allocation of capital

- Chrysalis has a robust balance sheet. As at 17 November, the Company held approximately £67m in cash and also had a £13m position in Wise, resulting in total liquid assets of £80m

- The portfolio is well funded, with 35% of the portfolio now profitable; 32% funded through to profitability based on company budgets; and a further 14% with a cash runway of approximately two years. This represents a substantial improvement from our previous update. On this basis, the Investment Advisor believes the foreseeable, likely future funding requirement across the portfolio is approximately £20m

<u>Investment Adviser Comments</u>

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

'We are very encouraged that in an extremely challenging market, five of our largest holdings have raised $1.5 billion in aggregate over the calendar year to date, with some welcoming new high-quality investors onto their share registers. We believe this demonstrates the ongoing strong performance of these assets and their compelling investment cases. Furthermore, the robustness of our valuation methodology is demonstrated by the fact that four of the five funding rounds were completed above the prevailing carrying value in Chrysalis.

The macroeconomic and geopolitical backdrop is uncertain, but we remain confident that many of our assets will continue to disrupt the huge markets in which they operate; our top six holdings have a sub 1% market share of their aggregate total addressable markets. In our experience, disruptive companies generally compound strong rates of growth throughout the economic cycle, and we believe this will be reflected in our NAV over time. Wise is a very good example of this, with analysts currently forecasting that the company will generate the same rapid rate of revenue growth through 2022 as when Chrysalis first invested in it four years ago.

Many of our largest holdings have evolved into market leaders since the point of investment, and we are confident in the outlook for these companies. The investment team has had a particular focus on working with portfolio assets over the course of 2022 to ensure that they are appropriately balancing growth and profitability considerations and are sufficiently capitalised to deliver on their plans. This should translate into successful exits and strong returns for our shareholders over the medium term.

Chrysalis has a portfolio approach to diversification to mitigate stock specific risk, and this has been borne out by the current macroeconomic backdrop, which has affected different assets in different ways. For example, our consumer exposure has seen a negative impact from inflationary pressures, which in turn have triggered a rising interest rate environment, to the benefit of some of our financial exposure.

Our original premise when Chrysalis was launched was that, while not all investments would be outright winners, a diversified portfolio would withstand market shocks and the most successful investments would offer the potential for multiple returns on invested capital, ensuring an attractive overall return for investors. We believe this premise still has validity."

Overview

Recently, equity markets have seen material impacts from political instability, macroeconomic uncertainty, rising interest rates and the ongoing tensions between Russia and Ukraine. This has led to a 27% decline in NASDAQ and a 62% decline in the GS Non-Profitable Tech Index over the financial year to September 2022, with the baskets of comparable companies used by the independent valuer to determine individual asset valuations falling by a similar amount.

The devaluations of comparable peer groups have resulted in the NAV over the financial year to 30 September 2022 declining by 41%, as the Company's new valuation committee has factored these market declines into its assessment of the fair value of the Company's assets.

Since the inception of Chrysalis, its assets have completed 20 primary funding rounds alongside one successful trade sale and two successful IPOs; these events help to inform fair value. Out of these 20 valuation events, only two have been completed below the valuation at which Chrysalis was carrying the asset; namely Secret Escapes raising £55m in the middle of the COVID-19 pandemic, and Klarna raising $800m of primary capital against a particularly challenging backdrop in mid-2022.

While the down-round undertaken by Klarna could be viewed as disappointing from a valuation perspective, the Investment Adviser believes its ability to raise $800m – including from new investors – at the peak of market fears over rising inflation and interest rates, demonstrates the attractiveness of its business model. Klarna has historically been profitable, and the Investment Adviser believes the runway this cash has given it will enable the company to push back towards break-even. The other four companies that completed funding rounds did so at, or at a premium to, both their last valuation rounds, and the valuations at which the Company was carrying the asset.

In aggregate, $1.5bn has been raised by the Company's investments during calendar 2022, to date. Given strong support from other parties, the Investment Adviser has been able to selectively deploy capital in an efficient manner, resulting in a total of commitment to these rounds of c$45m, or approximately 3% of the total raised, while still protecting the Company's shareholders' interests.

In aggregate, private assets have contributed to a 71.86 pence decline in the NAV per share over the financial year with listed assets accounting for a 31.90 pence decline. Klarna alone accounted for 57.66 pence, which implies an average write down of private assets, ex-Klarna, of just 1%. This represents a relatively stable performance versus the indices and relevant listed assets, but also reflects the strong trading performance and growth of our assets, as well as downside protection mechanisms that exist in certain assets.

Portfolio activity during the quarter

Several transactions have completed over the quarter which the Investment Adviser believes will enable the respective portfolio assets to continue their strong growth, pursue attractive M&A opportunities, and disrupt peers. The Company has supported many of these funding rounds while maintaining a strong capital position:

- In July, wefox raised a $400m Series D at a valuation of $4.5bn, a 50% increase from its valuation a year prior

- Also in July, Klarna also raised a $800m round at a post-money valuation of $6.7bn, to support its continued expansion in the US, at a more than an 80% decrease in valuation versus its last round. Chrysalis committed to its pro-rata entitlement of approximately $8.7m into the Klarna round

- In August, Featurespace completed a funding round which will likely fund the business through to profitability. The round was completed at a premium to the last round in May 2020, reflecting strong ARR progression over the period. Chrysalis invested £5m in the round

- In September, the Company completed an investment of $17m in Deep Instinct as part of its $62.5m primary round led by funds managed by BlackRock and existing shareholders, Unbound and Millennium. The latest investment will help accelerate the growth of Deep Instinct as it further penetrates the market with its disruptive threat-prevention cybersecurity technology

- Shares in Revolution Beauty were suspended, pending publication of its annual report & accounts, which is currently subject to an independent investigation into concerns raised by the group's auditors

- During the period, the Company exited its investment in THG plc entirely, and the proceeds from the sale were used to support investment into other portfolio assets, such as Deep Instinct

- In October, the Company received its third distribution from the administrators of Growth Street Holdings Limited. The Company has now received just over £1.3m to date as part of the winding-up process, representing a better recovery than originally anticipated.

Portfolio highlights over the financial year

Despite a tough economic backdrop and challenging trading environments in certain sectors, many of the Company's portfolio companies made strong progress over the last twelve months, including:

- **wefox** – which is on track to double revenues in 2022, to $600 million. The company has continued to grow internationally, and is now present in Germany, Austria, Switzerland, Poland, Italy and Spain. wefox has used the proceeds of its funding rounds over the last two years to acquire two large and profitable insurance brokers to enhance its distribution capabilities, namely Mansutti in Italy and TAF in the Netherlands

- **Starling Bank** – which reported its first full year of profitability, with a pre-tax profit of £32.1m for the year ended 31 March 2022. Starling has continued to grow at pace and in June 2022 it reported an annualised revenue run-rate of over £330 million and an annualised PBT run-rate of £92.0m, driven by year-on-year lending growth of 72% to £4bn. Starling continues to build on the mortgage capability it gained through the acquisition of Fleet Mortgages in July 2021, which has helped to grow the mortgage book to more than £2bn as at June 2022. The growth in lending has been funded by Starling's growing deposit base, which increased by a further £600m in just three months to end June 2022. Starling's Return on Tangible Equity for June 2022 is already best-in-class for a UK bank at 17.5%, compared to c.11% for the large high street banks and c.16% for other specialist and mid-tier lenders. This is despite Starling holding a significant capital surplus above its regulatory minimum and operating at a much lower loan-to-deposit ratio than traditional peers. Despite the positive trading update from Starling, the external valuer utilises a range of valuation techniques to determine fair value, and this resulted in a downward adjustment to Starling's valuation at period end on a comparable valuation basis

- BrandTech – which announced it had generated more than $500m of revenues in 2021 with organic growth in excess of 50%. The company had approximately 3,000 employees when Chrysalis first invested, and this figure has grown to approximately 5,000. BrandTech accelerated its geographic expansion over the period with the acquisition of leading LATAM data & technology company, DP6, and leading E-Commerce technology platform, Acorn-i. BrandTech also announced several world-class hires, including: Amazon Head of Global Agency Partnerships, Virgine Douin, to lead E-Commerce; Mindshare global CFO, Dawn Dickie, to join Nick Emery in running BrandTech Media; former Facebook Chief Creative Officer Mark D'Arcy as Chief Creative Officer

- Smart Pension – which is now operating at scale and growing rapidly. Smart had £2.2 billion of assets under management ("AuM") in 2021 and is expected to close 2022 with just over £6 billion of AuM. Smart forecasts it will achieve a 150% CAGR in revenues this year, versus 2019, and now serves almost one million members and 70,000 employers. Smart acquired US-based Stadion Money Management in January, which offers personalised digital retirement solutions to advisers, employers and members and more recently acquired The Ensign Master Trust which has £158m in assets and will be consolidated into the Smart Pension Master Trust. Smart has now consolidated eight former master trusts including the Welplan Master Trust, the Corpad Master Trust and Corporate Pensions Trust

- Deep Instinct – which participated in MITRE Engenuity's ATT&CK Evaluations for the first time achieving a 100% prevention score. The results validate the strength and robustness of Deep Instinct's multi-layered, prevention-first approach and unambiguously highlights the value of its platform. Deep Instinct bolstered its management team through 2022 by appointing Carl Froggett, former Head of Global Infrastructure Defence at Citi, as CIO and Lane Bess, former Palo Alto CEO and Zscaler COO, as CEO

Cash and Liquidity Update

As of 17 November 2022, the Company held approximately £67m of cash. In addition, the Company has further liquidity available, most notably its holding in Wise plc (approximately £13m), giving a total liquidity position of £80m. The aggregate gain on the Company's listed assets post period end equates to just £2.5m, representing 0.42 pence per share.

The Investment Adviser has worked extensively with its portfolio companies to assist them in responding to the change in market conditions, which has seen investors pivot from growth, towards profits. Given the late-stage nature of many of the Company's assets, approximately 35% of the portfolio is already profitable. In addition, the Investment Adviser believes a further 32% of the portfolio is now funded to profitability, and 14% is funded for at least two years.

This leaves approximately 19% of the portfolio, which has less than a two-year cash runway. Broadly, the Investment Adviser sees three paths available to this group if further funding is required:

- The Company uses its own capital to provide funding;
- Other investors provide capital; or
- The Investment Adviser looks to monetise the Company's position, most likely via a sale of the asset.

The Investment Adviser currently considers that the maximum likely funding it would need to commit to support companies in this group is £20m, well within the current cash and liquidity positions.

The Investment Adviser, in combination with the Board, regularly discusses the liquidity requirements of the Company. Consideration is given to likely known future cash requirements, such as the Company's running costs and potential follow-ons, as well as an appropriate level of capital to hold in reserve, to protect the Company from any currently unforeseen events.

The work undertaken by many portfolio companies over the last six to nine months to significantly strengthen their balance sheets and, through sensible actions, lengthen cash runways, means the Investment Adviser does not envisage a need to draw on this reserve capital. But given that a variety of macroeconomic and political uncertainties still exist, it believes it is prudent to retain this provision for the time being.

Therefore, despite the Company's robust balance sheet, and the significant discount to NAV that Chrysalis's shares currently trade on, the Board and Investment Adviser continue to believe it is appropriate to balance the necessity to guard against unforeseen eventualities, and protect the Company's medium to long term prospects, with more proactive capital uses, such as new investments or share buybacks. The Company's capital allocation process is, however, dynamic and continually reassessed.

Portfolio Composition

As of 30 September 2022, and 17 November 2022, the portfolio composition was as follows:

	30-Sep		17-Nov	
Portfolio Company	£millions	% of portfolio	£millions	% of portfolio
wefox	155	18%	154	18%
Starling	113	13%	113	13%
The Brandtech Group	103	12%	97	11%
Smart Pension	95	11%	95	11%
Deep Instinct	82	9%	77	9%
Klarna	56	6%	55	6%
Featurespace	53	6%	53	6%
Graphcore	45	5%	42	5%
Tactus	37	4%	37	4%
InfoSum	30	3%	30	3%
Wise	20	2%	13	2%
Sorted	18	2%	18	2%
Secret Escapes	13	1%	13	2%
Growth Street	-	0%	-	0%
Revolution Beauty	-	0%	-	0%
Gross cash	63	7%	67	8%

Source: Jupiter Investment Management (UK) Limited. Holdings size, as of 17 November 2022, are calculated using 30 September valuations, adjusted for FX as of 17 November 2022 and capturing transactions concluded post the NAV calculation period, and thus using cash as of 17 November. For listed shares, the holding values are based on closing share prices as of 17 November 2022, namely: Wise at 595.2p. Due to its suspended listing, a fair valuation process was adopted in the case of Revolution Beauty, which valued the shares at nil. 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 £0.88 bn and £0.87 bn for 30 September and 17 November respectively.

Outlook

The Company's largest holdings have made excellent progress over the last twelve months and continue to trade well against a challenging backdrop. This is reflected in the portfolio's strong revenue growth (estimated at over 50% on a blended average, one-year forward basis) and the well-funded nature of the majority of the Company's holdings.

While it has been a challenging period, in the form of THG's margin progression, and the unexpected audit issues at Revolution Beauty, the Company enters the financial year to September 2023 with a portfolio that is well capitalised and that continues to trade robustly, particularly among the larger holdings. Many of the Company's assets are disrupting huge addressable markets and will therefore be capable of compounding high rates of growth over the medium term; this should eventually translate into strong NAV progression and successful exits.

Although one of the possible exit routes – namely the IPO market – is broadly shut at present, the Investment Adviser notes that as the duration of low IPO market activity enters its fourth consecutive quarter, the last two significant market downturns in 2001 and 2008 saw the IPO market "close" for five and seven quarters respectively. Thus history suggests this period of hiatus is nearer the end, than the beginning.

Although trade sale remains a viable exit route for certain holdings, the reopening of the IPO market could materially alter the liquidity profile of the Company, particularly given it is holding a number of businesses that could conceivably IPO over the coming years.

Extra liquidity afforded by an exit, could materially alter the regular discussions regarding capital allocation, referred to above.

Factsheet

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

-ENDS-

For further information, please contact

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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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