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Kelso Group Holdings PLC
13 July 2023

Kelso Group Holdings Plc ("Kelso' or the "Company")

Investment in THG Plc ("THG") Update

Kelso, the main market listed investment company, updates its shareholders on its investment in THG Plc ("THG"). As previously announced in its Trading Update on 12 July 2023, Kelso confirmed its ownership of 8.0 million shares in THG, by way of ordinary shares and CFDs.

Kelso is pleased with the significant progress made by THG during 2023, including its recent positive trading statement, with management expecting H1 EBITDA to be approximately 41% up year on year. This progress has been helped by the external tailwinds of the significant whey price reduction which should help profitability particularly in H2. However, the significant non trading internal progress achieved should not be underestimated; improved communication to the stock market; improved corporate governance with new NEDs, early release of the golden share and reiterated commitment to joining the premium index which we hope will occur H1 2024.

The one-year anniversary of the announcement of the THG 'Separation' is later this month. The Separation occurred almost two years after the IPO and importantly allows each business division to be independently managed and reported on. It also facilitates possible third-party investment into any of the divisions and potentially for any of the divisions to be sold partially or in full. Importantly, Separation therefore gives THG significant strategic optionality, and we welcome management's openness and desire to explore these opportunities.

Kelso continues to believe this approach encourages stock market analysts to value THG on a sum of the parts basis, given the distinct nature of the various divisions. It is pleasing to see this change gradually occurring in the analyst community and we believe this will ultimately lead to the stock market better appreciating the fundamental value of THG, shifting away from pure e-commerce benchmark valuations. Liberum, the independent broker, continues to re-emphasise its 225p target value, over two times the current share price, but it is also encouraging to see other analysts increasingly refer in their research to higher potential price targets centred around the sum of the parts valuation.

In particular, we believe that THG's Nutrition division with its main brand of MyProtein should be valued as a global consumer brand, given near $1bn sales, double-digit EBITDA margins and its increased product innovation in the current year. This division alone continues, in our view, to be worth more than the market capitalisation of THG. Kelso's RNS on 21 April 2023[2] highlighted this value and the names of some of the global brands that are increasingly shifting the balance of their product portfolios away from sugar and chocolate products to more healthy and nutritional ones. This is made clear when the 13[1] global consumer product companies, with an average market capitalisation of £85.3bn, that we believe could potentially have strategic interest in this division, trade on an average EV/Sales of 4.4x. THG remains valued on an EV/Sales of c.0.5x.

Centred around the potential value of MyProtein, Kelso has been pleased to see two further industry developments in the last few weeks. First of all, on 5 July 2023, Mars Wrigley ("Mars") announced the acquisition of Kevin's Natural Foods for $800m, a business founded in 2019. Kevin's Natural Foods reportedly generated approximately $140m of revenue in 2022 up from approximately $100m in 2021, which implies a 5.7x historical sales multiple. This sales multiple is not dissimilar to other recent sales multiples on acquisitions in the nutrition sector. Secondly, we note the announcement on 22 June 2023 by Tesco reaffirming its commitment to support healthy affordable diets. Tesco announced in this statement its target of boosting sales of healthy products to 65% as a proportion of total sales by 2025. Kelso highlighted in its RNS on 21 April 2023[2] date about the global investment institutions demanding that food brands declare what % of their product portfolio are 'healthy'. Kelso believes that the combination of retailers such as Tesco targeting healthier products coupled with institutional investors equally wanting to understand the healthiness of the product portfolios of the global food brands better should leave THG's leading nutrition brand MyProtein in a strategically advantageous position as it further expands globally.

THG appears to be in a much steadier and improved position year on year. With THG's net debt to EBITDA ratio now approaching 1.0x, Kelso would like to see THG buying back some of its equity or debt demonstrating the improved confidence that they have shown in recent announcements.

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Kelso continues to encourage THG to deliver on a sum of the parts realisation and is very pleased that the company are open to driving this change forward. Kelso is looking forward to the interim results of THG in September with hopefully some corporate strategy update which we hope will serve to further explain and support why the recent Apollo bid was rejected.

[1] *Nestle, Coca Cola, Pepsi, Mondelez, Mars*, Hershey, Ferrero*, General Mills, Lotus Bakeries, Monster, Kraft Heinz, Keurig Dr Pepper, Danone *Denotes private*

[2] *https://www.londonstockexchange.com/news-article/KLSO/update-on-thg-investment-and-placing/15925580*

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About Kelso:

Kelso was established in November 2022 to identify, engage and unlock trapped value in UK listed companies. Through active engagement and alignment with other stakeholders, Kelso aims to effect change where existing shareholders are often unable or unwilling to do so themselves. Kelso is run by John Goold (CEO), Mark Kirkland (CFO and Strategy) and Jamie Brooke (CIO) each of which have over 25 years of experience in the quoted and unquoted UK small and mid-cap market.

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