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30 January 2025

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

### **Quarterly NAV Announcement and Trading Update**

#### **Net Asset Value**

The Company announces that as at 31 December 2024 the unaudited net asset value ("NAV") per ordinary share was 156.62 pence.

The NAV calculation is based on the Company's issued sharecapital as at 31 December 2024 of 567,167,153 ordinary shares of no par value.

December's NAV per share represents a 15.36 pence per share (11%) increase since 30 September 2024. The increase in the fair value of the portfolio accounted for approximately 11.38 pence per share, with foreign exchange generating a favourable movement of approximately 1.39 pence per share. The share buyback led to 2.76 pence per share of accretion; other income, fees and expenses make up the balance.

#### ***Richard Watts and Nick Williamson, Managing Partners of Chrysalis Investment Partners LLP comment:***

*"The Company's NAV rose considerably in the quarter, supported by both the strong performances from listed peers and the buyback of approximately £27 million of shares, which was accretive to NAV per share to the tune of nearly three pence.*

*Nearly all the Company's assets saw an increase in carrying value, albeit the position in Klarna benefited from the modest secondary investment ( 10 million) made in the quarter and the wefox position rose due to a decrease in the assessed downside scenario, a reassessment of the flow of capital via the waterfall and a follow-on primary capital injection of €20 million.*

*Our primary aims, as articulated in the recent full year results, are to maximise the value of the portfolio companies and sustainably narrow the share price discount to NAV.*

*In terms of managing the share price discount to NAV, the Company is currently just over a third of the way through the programme to return up to £100 million of capital to shareholders, to which it remains committed.*

*In terms of maximising value, we are confident in the outlook for the portfolio in 2025. We believe Starling is excellently positioned to continue to build out a comprehensive banking experience for its customers; Smart Pension has a great platform from which to continue to grow, likely assisted by regulatory drivers from mooted changes to pensions schemes; and Klarna is actively exploring an IPO, which would deliver further liquidity to the Company. These three portfolio companies account for c. 61% of NAV."*

#### **Portfolio Activity**

Chrysalis invested €20 million (c£16.6 million) into wefox in the period, which is expected to be the last material funding commitment to the business for the foreseeable future. The Investment Adviser is working towards a solution, alongside management and other shareholders, that would provide sufficient funding for the company to execute its growth plan, enhance the valuation protection mechanisms of supportive wefox shareholders, and offer potential upside through the successful delivery of its strategy.

The Company also invested 10 million (c£8.2 million) in a secondary offering in Klarna at a price which the Investment Adviser believes will yield a strong return for shareholders. Given Klarna has filed for an IPO, this investment is expected to become a liquid asset in the near-term.

In December, initial cash proceeds (c£79.0 million) were received from the sale of Featurespace to Visa.

As a result of this activity, the Company recorded a net inflow of cash from the portfolio over the period of approximately £54.2 million. This inflow was partly used to undertake the share buyback programme (c£27 million).

### **Strategic considerations**

In October 2024, the Company gave notice that, following some faster than anticipated realisations, the Investment Adviser was considering the merits of new investments as part of the ongoing execution of the Capital Allocation Policy ("CAP") - the CAP being a key element of the continuation vote proposals that were supported by shareholders in March 2024. It was anticipated that the process of refining the investment approach and building out a pipeline of potential investments was likely to take several months, and that the capital return programme would continue to narrow the share price discount to NAV over this period.

Following discussions with a significant number of shareholders, the Board wishes to clarify the following:

- 1) No proceeds from realisations will be considered for allocation to new investments until the Company has satisfied the second pillar of the CAP, namely the return of £100 million to shareholders (as of 29 January, c£36 million had been returned)
- 2) The Board will continue to monitor the CAP's effectiveness in reducing the share price discount to NAV. While the discount has narrowed since the buyback programme began, the Board is seeking a further, sustained improvement before considering new investments
- 3) Should further realisations occur, the Board remains committed to the return of at least 25% of any net realised gains

Given these factors and the time required to build out an investment pipeline, the Board believes that the Company is unlikely to consider using its liquidity to make new investments before 2026 and, even then, only if the discount to NAV has narrowed further and on a sustained basis. In the meantime, the Investment Adviser is focused on maximising the value of the portfolio and enhancing NAV to the benefit of all shareholders.

The Board and the Investment Adviser also acknowledge that some shareholders advocate for an expansion of the Investment Adviser's resources, to better manage the portfolio and the Company's investment strategy. As such, the Board will explore ways in which to achieve this with the Investment Adviser and will update shareholders as appropriate.

### **Portfolio Update**

#### **Starling**

Starling's valuation rose over the period, reflecting higher valuation multiples, typically derived from listed comparable companies, as well as the construction of the peer group, which the valuer assessed to more accurately reflect Starling's characteristics.

In the period, Starling launched an instant-access saver account ("Easy Saver"), which initially is only available to certain existing customers of the bank. Despite only being launched approximately two months ago, and without widespread marketing, this product has taken significant deposits.

As mentioned in the last quarterly NAV report, the FCA fined Starling £29 million in relation to failings that occurred between December 2019 and November 2023, in onboarding certain high-risk customers and its sanctions screening processes. The fine was paid in full and final settlement from the company's capital "headroom" to its capital requirements, which was £284 million as of March 2024.

With the FCA fine now resolved; a significantly strengthened management team; the launch of Easy Saver in November 2024 - which is on track for £1 billion in deposits imminently- and with other products being considered, the Investment Adviser is confident in the outlook for Starling.

#### **Smart Pension**

The carrying value of Smart was unchanged in the period.

The business continues to perform well, with profitability now achieved on an underlying EBITDA basis. This marks a significant turnaround from the material losses recorded in the prior year, and is testament to the success of the restructuring programme, which broadly completed in early 2024.

Of most relevance to Smart during the period was the announcement by the UK government to consult on setting a minimum size for multi-employer pension schemes - indicated to be £25 billion - by 2030. Currently, the Smart Pension Master Trust has AuM of approximately £6.4 billion, implying it would need to scale roughly fourfold to meet these mooted criteria. So saying, Smart has been highly active in Master Trust consolidation, with ten acquisitions undertaken since inception, assisted by the flexibility of its platform architecture. While such regulatory change is not without risk, the Investment Adviser believes it may prompt smaller Master Trusts to seek an exit and accelerate consolidation in the sector.

Outside potential M&A, the Investment Adviser sees significant opportunities for organic growth, including via Smart's Keystone platform.

#### **Klarna**

The value of Klarna rose in the period, driven by an increase in the assessed valuation of the company - due to the strong performances of a number of its listed peers - as well as the impact of the recent small, secondary investment of £8.2 million, which was also revalued to the new assessed valuation level.

Klarna released its third quarter results in the period. The financial highlight was the further improvement in profitability, with the third quarter delivering adjusted operating income of approximately SEK880 million, representing more than half of the year-to-date quantum of SEK1.6 billion.

As announced at the last NAV update, Klarna has unveiled a range of new relationships with significant payment service providers, such as Apple Pay and Google Pay, and this spate of new wins continued post period end, with the announcement of a deeper relationship with Stripe in January. The new Stripe deal will see Stripe-powered businesses able to easily offer Klarna as a payment solution to their customers. This helped Klarna to double the number of first-time merchants in 4Q 2024.

With a range of new, potentially significant, deals recently signed, the Investment Adviser remains optimistic Klarna will be able to

execute a successful IPO in 2025.

## **Brandtech**

Brandtech also saw a modest uptick in its carrying value.

The company continues to invest in its AI proposition, with David Jones (CEO) recently predicting in a Sunday Times article that "big companies will be able to cut their content creation costs by at least 50 per cent over the next three years".

As part of this focus on AI, in the period Brandtech announced a partnership with Adobe to integrate Pencil Pro (Brandtech's AI software platform) with Adobe Firefly Services. The combined solution is expected to offer brands the ability to create AI generated assets, underpinned by the security of Adobe products.

## **wefox**

With the exit of its insurance carrier and non-core assets, wefox is now focused on expanding its insurance distribution and MGA businesses. This streamlined, asset-light model enables efficient growth, while allowing wefox to capture distribution margin and some of the underwriting margin through its MGA strategy. As an MGA, wefox underwrites policies on behalf of insurers without taking on underwriting risk itself, earning a share of the underwriting margin through commission payments. By strengthening insurer partnerships and scaling its platform, wefox believes it is positioned for sustainable expansion and improved profitability.

## **Cash Update**

As of 31 December, the Company had gross cash and equivalents of approximately £141 million and a position in Wise of approximately £3 million, to give a total liquidity position of approximately £144 million. The cash position improved substantially over the quarter, due to the sale of Featurespace to Visa in December 2024 and the drawdown of the Barclays loan.

## **Portfolio Composition**

As of 31 December 2024, the portfolio composition was as follows:

Portfolio Company	31-Dec	
	Carrying Value (£ millions)	% of portfolio
Starling	278.9	29.1%
Klarna	143.6	15.0%
Smart Pension	123.4	12.9%
Brandtech	87.4	9.1%
wefox	65.8	6.9%
InfoSum	41.4	4.3%
Deep Instinct	41.1	4.3%
Secret Escapes	20.0	2.1%
Featurespace	10.5	1.1%
Wise	3.2	0.3%
Graphcore	1.0	0.1%
Sorted	0.3	0.0%
Gross cash and cash equivalents	141.5	14.8%

Source: Chrysalis Investments Limited. Due to rounding, the figures may not add up to 100%. The above percentages are based on an aggregate portfolio value (including cash and cash equivalents plus deferred proceeds receivable on sold investments) of approximately £958 million for 31 December 2024.

## **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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