



**SERAPHIM**  
SPACE INVESTMENT TRUST PLC

# SERAPHIM SPACE INVESTMENT TRUST PLC

Downside Protections & Portfolio Valuations Sensitivity Analysis

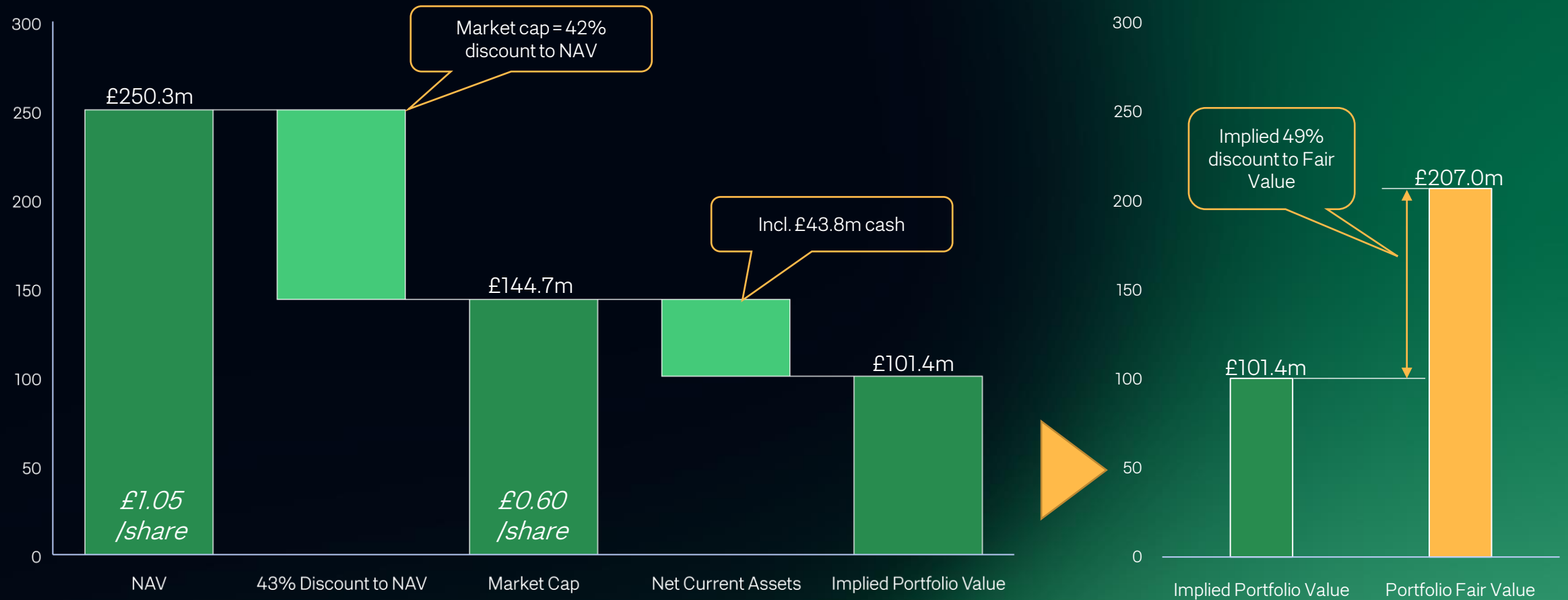
**Important information** - Please remember past performance is not a reliable indicator of future results. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. Seraphim Space Investment Trust plc (SSIT) is not authorised to give financial advice. This information should not be considered an initiation, recommendation or solicitation to deal in investments. All sources are Seraphim Space Manager LLP unless otherwise stated. Issued and approved by Seraphim Space Manager LLP which is authorised and regulated by the Financial Conduct Authority (FRN:772782)

## EXECUTIVE SUMMARY

- Portfolio is largely performing well, benefitting from secular trends around global security and climate change / sustainability.
- Most material holdings (top 10) are well capitalised, with sufficient runway through until the end of 2023. For those requiring funding, termsheets have now been received.
- Market cap 42% discount to NAV (as at 30 Sept 22) implies a 49% discount to the fair value of the portfolio (once cash on balance sheet is discounted), which the Manager believes doesn't reflect how the portfolio is currently performing and how downside protections in well capitalised companies are effectively protecting shareholder value.
- Downside protections – specifically liquidation preferences and anti-dilution – would help insulate the value of the Fund's investments were there to be significant reductions in the enterprise values of portfolio companies (which is not the Manager's expectation).
- Sensitivity analysis undertaken by the Manager has looked at the implied impact on both portfolio fair value and the Fund's NAV based on 10%, 25% and 50% reductions in the enterprise value of all private holdings in the Fund's top 10 holdings which collectively accounted for 64% of NAV and 85% of the value of all the Fund's private holdings as at 30 Sept 22.
- **The analysis indicates that even a 50% reduction in enterprise values of the private holdings in the Fund's top 10 holdings would only translate into a c.19% reduction in NAV, vs. share price on 30 Sept 22 trading at 42% discount to NAV**

As at 30 Sept 2022 – based on a £0.60 share price, shares traded at a 42% discount to NAV and an implied 49% discount to portfolio fair value.

## SSIT NAV VS. MARKET CAP ANALYSIS AS AT 30 SEPT 2022



The downside protections afforded by liquidation preference and anti-dilution mean that the fair value of holdings would not decline linearly with any reductions in the enterprise values of private portfolio companies.

## DOWNSIDE PROTECTIONS

### PREFERENCE SHARES

#### *What Is It?*

- Class of shares that rank senior to ordinary shares / common stock
- 'Liquidation preference' provides for priority return ahead of other classes of shares

#### *What Is Its Purpose?*

- Protect the value of an investment

#### *How Does It Work?*

- At exit receive an amount – normally equivalent to a 1x return - ahead of any other proceeds being distributed
- Ranks junior to debt, but senior to ordinary shares / other classes of shares

#### *What Does It Do?*

- Provides downside protection by potentially delivering 1x return in low exit scenarios

### ANTI-DILUTION

#### *What Is It?*

- Mechanism to adjust price paid / shares owned where a subsequent funding round is done at a lower valuation (also known as a 'down round')

#### *What Is Its Purpose?*

- Protect % ownership of an investment

#### *How Does It Work?*

- Additional shares issued at par in the event of a down round

#### *What Does It Do?*

- Provides downside protection by reducing the amount of dilution in lower priced rounds

All of the private companies in the top 10 holdings benefit from both liquidation preferences and anti-dilution protections. These mechanisms are designed to help protect value should companies' valuations fall.

## DOWNSIDE PROTECTION PRIVATE COMPANIES IN TOP 10 HOLDINGS

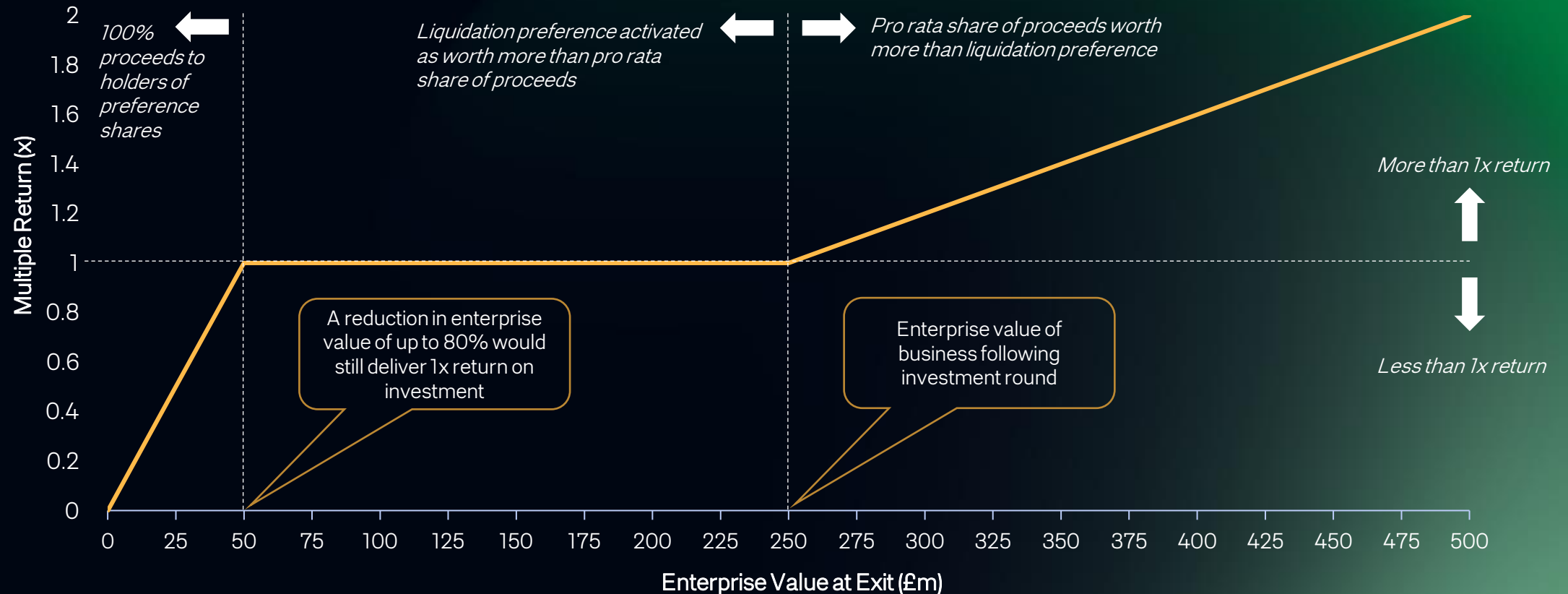
Company	Equity?	Convertible Loan Notes?	Preference Shares?	Liquidation Preference?	Anti Dilution?	% FV in Top Rank Equity / CLNs
ICEYE	✓	✗	✓	N.P.	W.A.	100%
ALL.SPACE	✓	✗	✓	N.P.	W.A.	93%
HawkEye 360	✓	✗	✓	N.P.	W.A.	100%
LeoLabs	✓	✗	✓	N.P.	W.A.	18%
D-Orbit	✓	✗	✓	P	W.A.	0%
Altitude Angel	✓	✗	✓	N.P.	W.A.	100%
PlanetWatchers	✓	✗	✓	N.P.	W.A.	51%
Astroscale	✓	✗	✓	N.P.	W.A.	100%
Satellite Vu	✓	✗	✓	N.P.	W.A.	22%

### Legend

N.P. = Non participating      W.A. = Weighted Average  
P. = Participating              F.R. = Full Ratchet

A liquidation preference can protect the value of an investment even if the company's valuation were to fall materially.

## WORKED EXAMPLE: LIQUIDATION PREFERENCE PROTECTING 80% EV REDUCTION



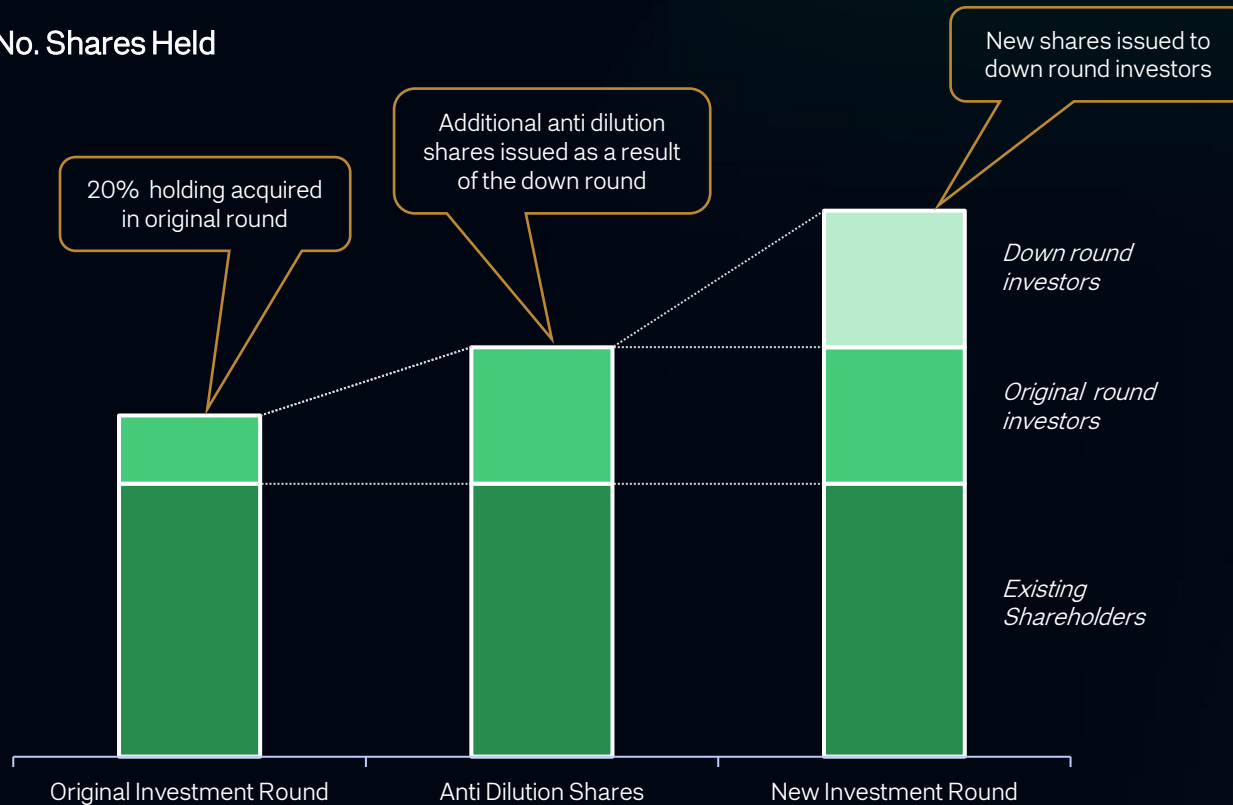
### Assumptions

- £50m invested at £200m valuation
- New class of preference shares ranking senior to all other share classes
- Preference shares have 1x return non-participating liquidation preference

Anti-dilution can help preserve (indeed on occasions enhance) the ownership of a holding if a company's valuation is reduced in subsequent funding rounds.

## WORKED EXAMPLE ANTI DILUTION

No. Shares Held



% Shareholding Owned



### Assumptions

- £50m invested at £200m valuation to acquire 20% stake
- Subsequent down round of additional £50m at 50% share price of original round
- Full ratchet anti dilution protection



Notes: \*Assumed 25% price adjustment through anti dilution protection



Downside protection afforded by liquidation preferences mean that relative to the most recent valuation event used to calculate fair value, valuations within the top 10 holdings would on average need to fall by more than 50% before fair value would fall below cost.

## DOWNSIDE PROTECTION PRIVATE COMPANIES IN TOP 10 HOLDINGS

Implied reduction in Enterprise Value before fair value would fall below cost



**62%**

Mean valuation margin to maintain  
1x return on investment

**53%**

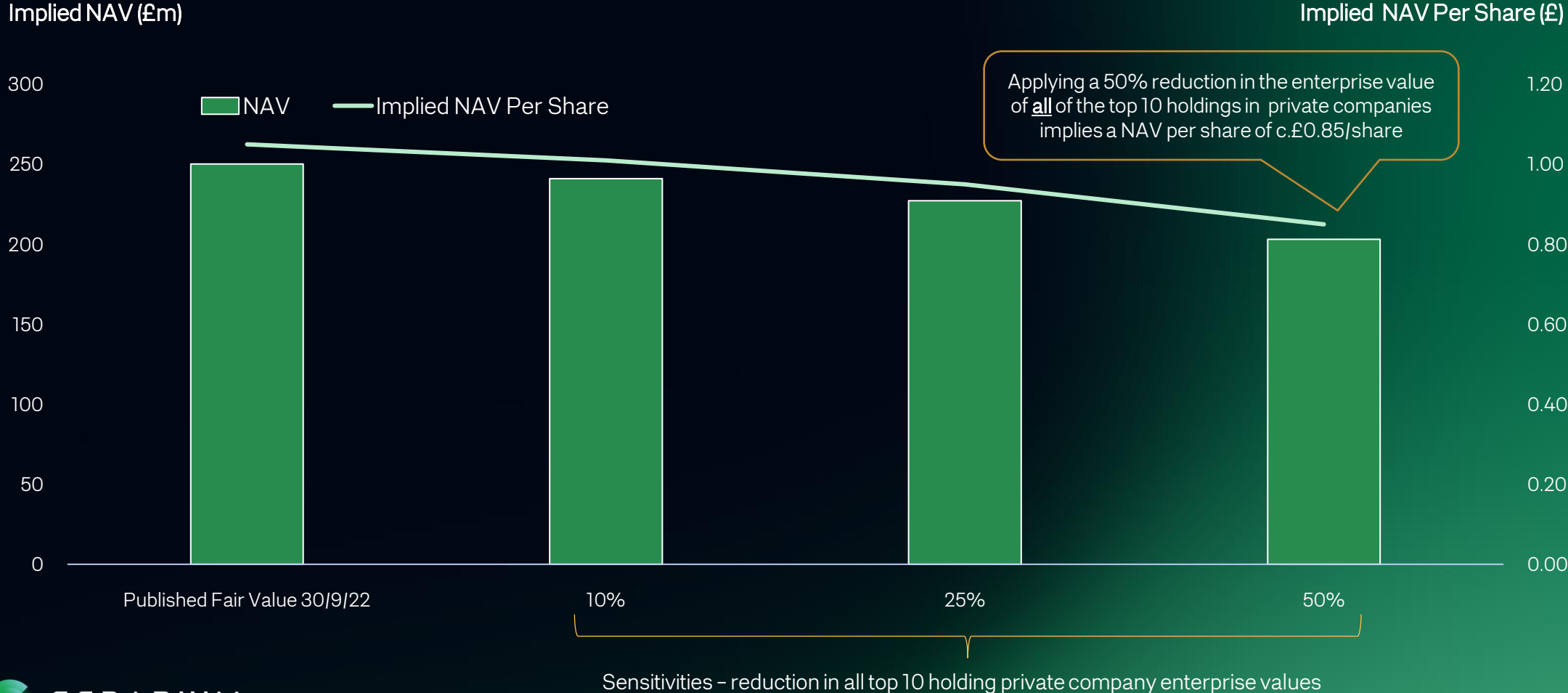
NAV-weighted average valuation  
margin to maintain 1x return on  
investment

**69%**

Median valuation margin to maintain  
1x return on investment

Applying sensitivities of a 10-50% reduction in the enterprise values of all private companies within the top 10 holdings results in an implied NAV per share of £0.85-£1.01.

### SENSITIVITY ANALYSIS: TOP 10 PRIVATE HOLDINGS AT 30 SEPT 2022



*Note - 9 private companies in top 10 holdings account for 77% of overall portfolio value as at 30 Sept 2022, and 85% of value of all the Fund's private holdings*

## CONCLUSION

- Current 42% discount to NAV (as at 30 September 2022) doesn't reflect how the portfolio is currently performing and how the downside protections in well capitalised companies are effectively protecting shareholder value.
- Combination of cash runway, secular market trends and downside protections mean portfolio is currently well protected from wider market turbulence.
- Even if there was a 50% fall in the enterprise value of all private top 10 holdings, this would only translate into a c.19% reduction in NAV.



**SERAPHIM**  
SPACE INVESTMENT TRUST PLC

# APPENDIX

# SPOTLIGHT ON STRUCTURE

## DOWNSIDE PROTECTIONS

### PREFERENCE SHARES

- *Primary purpose: protect value of an investment*
- Class of shares that rank senior to ordinary shares / common stock
- Provide downside protection through 'liquidation preference'
- In a liquidity event (i.e. sale of business), this gives preference shareholders the right to receive a specified amount in priority to ordinary shareholders receiving any proceeds
- This liquidation preference is normally equivalent to the original price paid by the investor to acquire the shares, but can also be a multiple of the original price paid
- Hence preference shares provide downside protection by enabling investors to potentially achieve a 1x (or higher) return on their investment in scenarios where an investment is realised at a substantially lower enterprise value than the one they originally invested at
- There are two different types of preference shares that can be used:
  - *Non-participating* preference shares entitle holders to elect to either receive a specified return in priority to other shareholders or to forgo this prioritised return in favour of receiving a proportion of the proceeds based on their % ownership of the company
  - *Participating* preference shares entitle holders to elect to receive a specified return in priority to other shareholders and a proportion of the proceeds based on their % ownership of the company
- Typically each new round of investment is undertaken in a new class of preference shares which rank senior to both ordinary shares and any other classes of preference shares

# SPOTLIGHT ON STRUCTURE

## DOWNSIDE PROTECTIONS (2)

### ANTI DILUTION

- *Primary purpose: protect % ownership of an investment*
- Typically a feature of preference shares
- Provide a mechanism to adjust price paid / shares owned where a subsequent funding round is done at a lower valuation (also known as a '*down round*')
- Typically functions by having additional shares issued for nil consideration / par value to re-base effective price paid for preference shares to reflect the lower valuation of the down round
- There are two different types of anti-dilution protections that can be used:
  - *Full ratchet anti dilution* means price is fully / 100% adjusted to reflect pricing of a down round
  - *Weighted average anti dilution* means that price is partially adjusted (typically 5-50%) to reflect pricing of a down round
- Weighted average anti dilution is the norm, albeit full ratchet typically becomes somewhat more prevalent in downturns