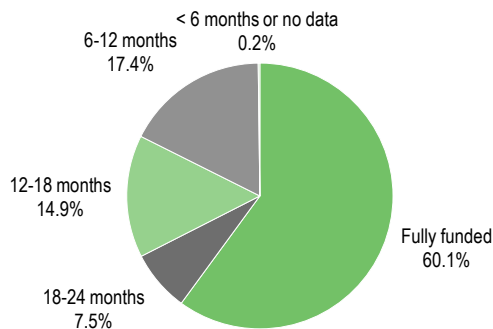


Seraphim Space Investment Trust

Several key holdings funded to break-even

Seraphim Space Investment Trust (SSIT) reported a modest 1.8% NAV total return (TR) in H124, as the positive impact from up rounds (most notably D-Orbit's) was partly offset by downward fair value adjustments of some other holdings due to technical setbacks or operational underperformance. However, we note that fund-raising across the spacetechnology sector remained robust in CY23. Moreover, 82% of SSIT's portfolio has a robust cash runway, with 60% fully funded based on the projections of its management, and 22% funded for 12 months or more from the end of 2023. Excluding the fully funded companies, the remaining portfolio has a fair value weighted average cash runway of 12 months, according to Seraphim Space.

Around 60% of portfolio by value is funded through to cash flow break-even



Source: Seraphim Space Investment Trust data

Spacetechnology's lift-off moment may be now

Commercial space technology (spacetechnology) is gathering pace, driven by a massive decline in the cost of manufacturing and putting satellites into orbit. This is coupled with growing demand for Earth observation from space in end-markets like defence, climate change and insurance. Further drivers on the demand side include, among others, connectivity and mobility. A wide range of investors (including sovereign wealth funds and private equity investors) have recognised the industry's potential and have recently made forays into spacetechnology, with total venture and growth investments of US\$6.8bn in 2023 (broadly stable versus 2022), according to the Seraphim Space Index.

SSIT's portfolio gradually maturing

SSIT offers a rare opportunity to invest in a portfolio exclusively composed of early and growth-stage spacetechnology businesses (with c 97.5% of the portfolio value now in private companies), representing a viable alternative to ETFs focused on listed large-cap companies with only partial exposure to the theme. Several of its largest holdings have experienced good commercial traction recently, including ICEYE (SSIT's largest holding, making up 20% of the portfolio), which has recently become EBITDA positive. Once IPO activity rebounds, this could provide SSIT's major holdings the opportunity to list (though this seems more likely in CY25 rather than this year). SSIT's diverse portfolio is now available at a wide discount to NAV.

Investment trusts Growth capital

10 April 2024

Price Ord 54.2p
Market cap £128.6m
NAV £224.3m

NAV per share* 94.57p

Share discount to NAV 42.7%

*As at end-December 2023.

Yield 0.0%

Shares in issue 237.2m

Code Ord/ISIN SSIT/GB00BKPG0138

Primary exchange LSE

AIC sector Capital Growth

SSIT's financial year end 30 June

52-week high/low 62.4p 26.1p

NAV high/low 96.5p 91.8p

Gearing

Cash at end-December 2023 £26.8m

Fund objective

Seraphim Space Investment Trust's objective is to generate capital growth over the long term through investment in a diversified, international portfolio of predominantly early- and growth-stage unquoted spacetechnology businesses with the potential to dominate globally. Spacetechnology businesses rely on space-based connectivity or precision, navigation and timing signals, addressing a broad range of key applications.

Bull points

- SSIT is expected to benefit from structural long-term tailwinds.
- Downside protection from liquidity preference and anti-dilution clauses.
- Good cash runway across most of the portfolio by value.

Bear points

- Macroeconomic headwinds curbing venture capital deal activity and valuations.
- Liquidity constraints could hamper new investments.
- Early-stage companies that are yet to break even are inherently risky.

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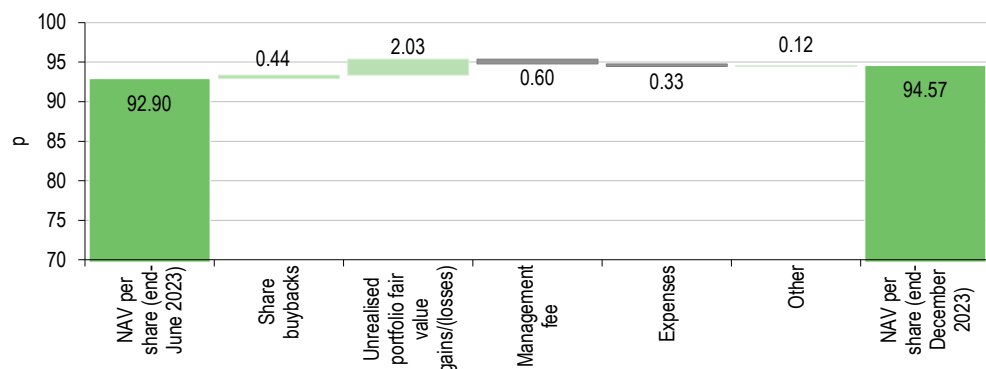
Slightly positive NAV TR in H124

SSIT posted a 1.8% NAV TR in H124 (to end-December 2023), with unrealised net fair value gains of £4.6m and a small FX gain of £0.2m. A positive impact came from some of the recently closed funding rounds, most notably the €100m first close of a Series C funding round in January 2024 completed by D-Orbit (14.4% of SSIT's end-December 2023 NAV), which was revalued upwards by 50% (by £10.8m to £32.2m in the case of SSIT's stake). The company recently successfully launched its 12th and 13th ION Satellite Carrier orbital transfer missions.

Positive revaluations on the back of up rounds were partly offset by fair value reductions across some of the other holdings due to technical setbacks (Satellite Vu, 4.9% of end-December 2023 NAV) or underperformance (eg Altitude Angel and Xona Space Systems). Satellite Vu's first satellite, which was successfully commissioned and entered commercial operations last year, faced a failure after six months in operation. As a result, the company will be unable to provide its services until the next satellite is successfully deployed into orbit (which it expects around Q125). The company will receive the full payout from its insurance policy. Still, the fair value of this holding in SSIT's portfolio was reduced by 25% (or by £3.7m) to £11.0m. The net fair value reduction outside of SSIT's top 10 holdings was a minor c £0.4m in H124.

SSIT's NAV TR was also assisted by the NAV-accretive buyback (£1m spent in H124 to buy 2.2m shares or 0.9% of total shares in issue before the buyback announcement), which added £0.44 per share (or c 0.5%) to the company's NAV per share.

Exhibit 1: Attribution analysis of SSIT's NAV per share TR in H124 (to end-December 2023)



Source: Seraphim Space Investment Trust data, Edison Investment Research

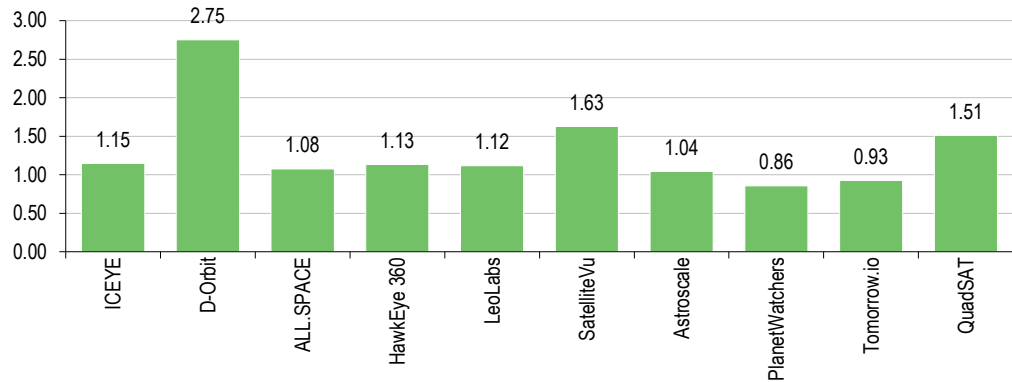
SSIT's private portfolio valued at around 1.2x cost

At end-December 2023, SSIT's entire portfolio was valued at 1.01x cost. We note that this indicator is somewhat distorted by the negative impact from three portfolio companies that were listed via special purpose acquisition company (SPAC) mergers in 2021: AST SpaceMobile, Arqit Quantum and Spire Global. These companies subsequently experienced a significant de-rating since listing (see our [previous note](#) for details), which was common among SPAC mergers formed at that time.

The fair value of SSIT's listed holdings stood at 13.2% of cost, broadly unchanged versus end-June 2023. Most of the negative impact materialised before H124, with more recent weakness limited to Arqit Quantum. Meanwhile, Spire Global performed well (its share price was up c 90% between end-June and end-December 2023, and a further 57% post reporting date). AST SpaceMobile secured c US\$200m in funding in January 2024, including US\$155m in equity funding, led by Google and AT&T. Its share price increased c 28% between end-June and end-December 2023, but subsequently fell significantly to date.

SSIT's private companies (representing 97.5% of the £198.0m total portfolio fair value at end-December 2023) were valued at 121.5% of cost (vs 119.2% at end-June 2023), with only two out of the top 10 holdings (the latter making up 85% of its portfolio fair value) valued below cost (see Exhibit 2).

Exhibit 2: Multiple on invested capital* of SSIT's top 10 holdings at end-December 2023



Source: Seraphim Space Investment Trust data. Note: *Defined as the remaining unrealised fair value divided by the revised cost of investment after accounting for partial realisations.

Exhibit 3: Summary of SSIT's portfolio at end-December 2023

Company name	Subsector	Long-term TAM* in US\$bn	Fair value (£m)	% of NAV
ICEYE	Platform/Earth observation	10+	45.4	20.2%
D-Orbit	Launch/in-orbit services	1-5	32.2	14.4%
ALL.SPACE	Downlink/ground terminals	10+	23.9	10.7%
HawkEye 360	Platform/Earth observation	10+	21.1	9.4%
LeoLabs	Product/data platforms	1-5	13.1	5.8%
Satellite Vu	Platform/Earth observation	1-5	11.0	4.9%
Astroscale	Beyond Earth/in-orbit services	1-5	9.8	4.4%
PlanetWatchers	Analyse/data analytics	5-10	4.8	2.1%
Tomorrow.io	Platform/data platforms	30+	3.9	1.8%
QuadSAT	Downlink/communications	1-5	3.9	1.7%
Top 10	-	-	169.1	75.4%
Other investments	-	-	28.8	12.8%
Total portfolio value	-	-	198.0	88.2%
Cash	-	-	26.8	11.9%
Performance fee provision	-	-	0.0	-
Net current assets/(liabilities)	-	-	(0.4)	(0.2%)
NAV	-	-	224.3	100%

Source: Seraphim Space Investment Trust data. Note: *TAM, long-term total addressable market estimated by Seraphim Space.

Follow-on investments and selective new deals in H124

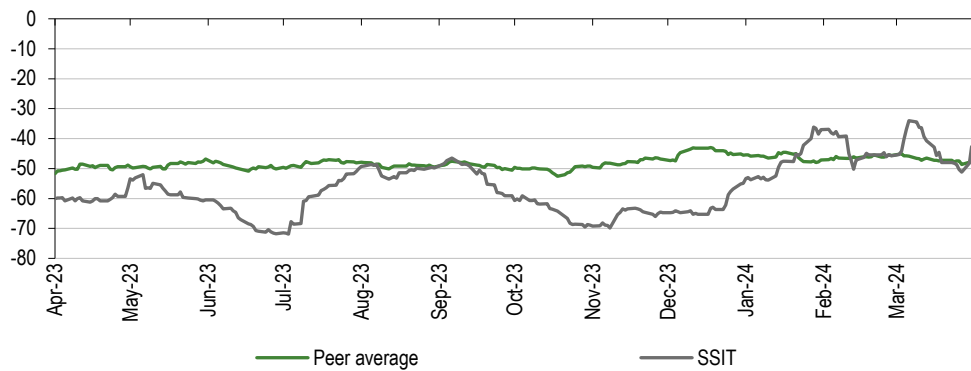
Given the difficult venture capital (VC) market environment, SSIT prioritised cash preservation and the support of its existing portfolio companies over extensive new investments. As a result, the company invested £5.7m in H124, of which £2.5m was deployed into three new investments and £3.3m into three follow-on transactions. SSIT's new investments include Skylo, a telecommunication services provider developing a solution for standards-based 'device-to-device' satellite connectivity, enabling connectivity of mobile phones with the Android operating system, as well as enterprise IoT endpoints, to legacy geostationary satellites when they are outside of terrestrial coverage ('always-on' connectivity). SSIT invested £1.6m in Skylo's US\$37m Series A funding round led by Intel Capital and Innovation Endeavours. Skylo's management believes that

this should take the company to cash flow break-even. SSIT deployed a further £0.9m in two new undisclosed early-stage investments.

With respect to follow-on transactions, SSIT deployed a further £2.8m in a recent funding round of ALL.SPAC (10.7% of SSIT’s end-December 2023 NAV), which is developing antennas capable of connecting to any satellite in any constellation and orbit. The company recently signed a large, non-dilutive contract with a US defence customer amounting to more than US\$10m. SSIT also made follow-on investments into two early-stage businesses amounting to c £0.5m.

The company’s liquid resources stood at £26.8m (or 12% of NAV) at end-December 2023. The majority of these resources will be used to support existing companies in upcoming funding rounds, and some capital will be deployed into further new investments. SSIT’s board will continue to monitor the company’s share price performance and discount to NAV (see Exhibit 4), but does not intend to initiate further buybacks at the moment.

Exhibit 4: Discount to NAV over the last 12 months (%) – SSIT versus peers

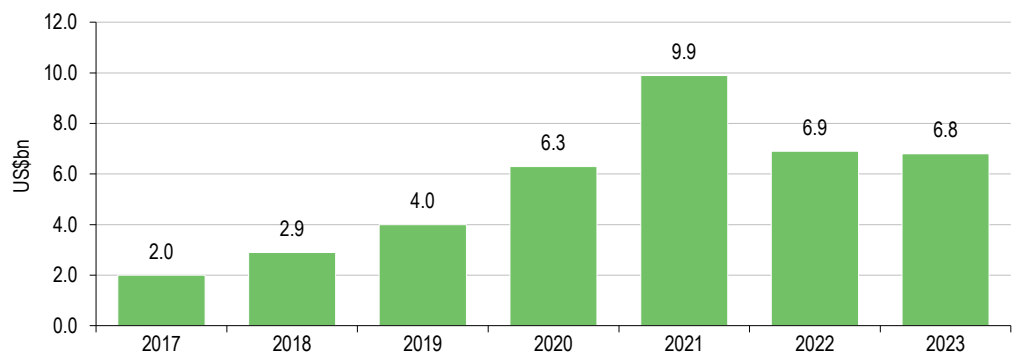


Source: LSEG, Seraphim Space Investment Trust data. Note: Peers include Molten Ventures, IP Group, Augmentum Fintech, Chrysalis Investments, Schroder British Opportunities and Schroder UK Public Private Trust.

Spacetech fund-raising remains resilient

SSIT highlighted that its private holdings continue to see solid growth in revenue and bookings, driven mostly by the demand associated with global security and climate change/sustainability. The spacetech industry continues to benefit from strong secular tailwinds (as discussed in our previous [note](#)) and data from Seraphim Space indicates that the sector has outperformed the broad VC market in terms of investment activity, which for spacetech businesses reached US\$6.8bn in CY23 and was stable versus 2022 (see Exhibit 5), compared to a 35% decline in the broader VC market.

Exhibit 5: VC/growth capital investments in the global spacetech sector



Source: Seraphim Space Index

SSIT’s portfolio companies raised more than US\$185m in total between 1 July and 31 December 2023 (versus more than US\$130m in between 1 July and 31 December 2022). SSIT participated in most of these funding rounds, and while it accepted a certain modest level of dilution in selected cases, this did not have any major impact on the implied value of SSIT’s holdings. Eight SSIT companies successfully completed funding rounds in the period (including two from its top 10 list: HawkEye 360 and Tomorrow.io), of which six were with participation (or were led) by new external investors. Fund-raising completed in H124 include one up round, as well as two flat rounds and three down rounds. The down rounds included two cases where the lower valuation was driven by underperformance versus previous expectations and one instance of a significant funding round closing modestly below the previous round carried out at the peak of the market in 2021. The three down rounds did not have any significant impact on SSIT’s NAV, partly thanks to the downside protection from liquidation preferences, which provide a prioritised return ahead of other share classes.

Seraphim Space has recently seen a recovery in growth-stage funding rounds across the market, which it believes bodes well for activity in CY24. It highlighted that, while some of its more mature companies aspire to go public, their management teams are mindful of the current tough IPO environment. Therefore, they are now focusing on scaling revenues and moving towards profitability ahead of potential listings (which are more likely in CY25).

60% of portfolio funded to cash flow break-even

SSIT’s portfolio companies remain well-funded overall, as seven companies making up 60% of its portfolio by fair value (five of which are in SSIT’s top 10 holdings) are already funded through to their cash flow break-even point based on the projections of their respective management teams (see front page exhibit). These companies may still decide to raise further capital to fuel growth or M&A activity to add organic revenue or new strategic capabilities. An example of M&A activity across SSIT’s broader portfolio includes HawkEye 360, which used some of the proceeds from its recent US\$68m Series D-1 funding round to acquire RF Solutions, a provider of secure, precise, geospatial intelligence, from Maxar Intelligence. ICEYE, SSIT’s largest holding at end-December 2023, making up c 20% of portfolio value, now operates a constellation of 34 satellites and is EBITDA positive.

In addition to the seven companies that are funded to break-even, a further 16 holdings (representing 22% of portfolio value) are funded to end-December 2024 or later. Given that a typical VC funding cycle is 12 to 18 months, SSIT’s portfolio also includes companies with a cash runway of less than 12 months (c 18% of portfolio value). However, SSIT remains confident that these holdings will be able to close their respective funding rounds soon.

Appendix

Exhibit 6: SSIT’s discrete performance versus selected indices in total return, sterling terms (%)

12 months ending	SSIT’s NAV	SSIT’s share price	MSCI World Index	MSCI World Aerospace & Defense index
31/12/22	(11.4)	(64.0)	(7.4)	27.6
31/12/23	2.0	(23.9)	17.4	9.5

Source: LSEG, Edison Investment Research

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