



IP Group plc Shareholder Q&A – 2020 AGM

Thank you once again to those shareholders who took the time to submit questions in advance of the Group's 2020 AGM and Shareholder Event, held on 18 June 2020. Given a number of the questions received were on similar themes, we have grouped together the responses under the below thematic sub-headings rather than answer each individually to avoid repetition. If you don't feel that your questions have been answered or indeed have any follow up questions, please feel free to contact us further at cosec@ipgroupplc.com.

Themes:

- **Capital allocation, including share buy back**

As IP Group is strong financially with net cash of £181.8m at 31 May 2020 and, given that our shares are trading at a discount of ~43%¹ to our 31 December 2019 Hard Net Asset Value ('HNAV') per share, the question of buying back some of our own shares is one that we discuss regularly at Board level. These discussions are guided by the Group's clear capital allocation policy which is designed to ensure that cash is allocated in a way that it is consistent with the purpose and strategy of the Group. The primary use of the Group's cash is for the requirements of our portfolio companies (both existing and new) and in considering this versus alternative uses such as a share buyback, the Board aims to take into account the interests of various of its stakeholders and to take a view on where it considers stakeholders will achieve the best returns. We intend to update shareholders further on the application of our capital allocation policy at the time of our half-yearly results, which will be released on 5 August 2020.

- **Sale of shares in Avacta Group plc**

Rationalisation of the Group's Life Sciences portfolio has been ongoing since the combination of the portfolios of both IP Group and Touchstone in late 2017. This rationalisation process will likely continue through the remainder of 2020 and possibly beyond and will result in a smaller, more focussed but diverse portfolio of 10-20 companies, each one with 'NASDAQ potential' and with a target ownership of at least 25%.

Specifically regarding the sale of shares in portfolio company Avacta Group plc, consistent with this strategy of focus and rationalisation, the Group's Life Sciences partnership made the considered decision in March of this year to sell the holding to take advantage of liquidity in the market. This timing was concurrent with a placing by Avacta. Two days later, Avacta announced a partnership with Cytiva (formerly GE Healthcare) for rapid testing for Covid-19. Unfortunately, in this case we got our timing wrong. We are pleased for Avacta and IP Group was the first investor in Avacta, highlighting the growing number of successful 'alumni' companies which IP Group has backed.

- **Measuring and reporting on performance**

IP Group currently reports against seven key performance indicators, as described on pages 16-17 of the 2019 Annual Report and Accounts. The first two of these, Hard NAV and Return on Hard NAV, are considered the most relevant to long-term returns for the Group. In recent years the Group has also reported Hard NAV per share, which also takes into account changes to the Group's Hard NAV arising

¹ Based on 61.7p, the closing IP Group plc share price on 17 June 2020.



from transactions with shareholders (issue or redemption of shares) or M&A activity. The Group has grown its Hard NAV per share by nearly five times, or just over 10% compound growth, over the last 17 years, illustrating the potential opportunity of a portfolio of innovative science-based companies held in a public vehicle.

IP Group benefits from 'permanent capital' in the form of its balance sheet, which enables the provision of flexible, 'cradle to maturity' funding unconstrained by the traditional fixed-life VC fund approach. As a result, the measures traditionally used by fixed-life funds, such as Total Value to Paid In capital multiple ('TVPI'), Distributions to Paid In capital multiple ('DPI') and Internal Rate of Return ('IRR') are less relevant to the IP Group business model. We do measure IRR and multiple vs cost for individual portfolio companies and seek to disclose this information where possible. Despite the aforementioned limitations, the Group has also sought to calculate the equivalent of a 'since inception' IRR, including a review of our methodology and calculation by KPMG, that, at 31 December 2019, was at a comparable level to the growth in Hard NAV per share mentioned above.

From the perspective of long-term incentives, the primary mechanism for incentivising and aligning the performance of the Group's directors with its shareholders is the Long-Term Incentive Plan. Further information on the LTIP is set out in the Directors' Remuneration Report contained within the 2019 Annual Report. The two performance conditions for the LTIP are growth in the Group's Hard NAV (8-15% per annum compound) and Total Shareholder Return (8-15% per annum compound).

- **Share Price performance and relationship with HNAV per share**

Net asset value per share has fallen from 128 pence in June 2017 to 108 pence in December 2019 and our share price is now trading at a discount of ~43% to Hard NAV per share.

The latter is affected by general market conditions, accelerated by the Woodford fallout last year.

The former is primarily due to three factors:

Firstly, the dilutive impact of the Touchstone and Parkwalk acquisitions. These led to a one-time dilution in the Group's net assets per share of 12p. Regarding the integration of the Touchstone portfolio into the Group's portfolio from 2018 onwards, we have overcome a number of challenges arising from focusing on a smaller number of the most compelling opportunities, technical and commercial setbacks and harmonisation of valuations. We continue to believe that, notwithstanding the short-term NAV impact, the strategic logic behind the combination of the two entities remains, i.e. to combine two sub-scale companies into a larger, more liquid entity, and we believe we are now in a good position to capitalise on opportunities presented by the combined portfolio to the next level.

Secondly, and as referenced above in the context of the Life Sciences partnership, the two UK investment partnerships – Life Sciences and Tech (the latter including Cleantech) - have been going through a period of rationalisation to focus our resources on those portfolio companies where the Group owns a meaningful stake and that we believe are most likely to deliver a meaningful impact on Group NAV over the short to medium term. We expect each business unit to own a greater percentage of a smaller number of assets, typically focusing on between 10 and 25 assets.

Thirdly, cost. While not the key driver of IP Group's long-term performance, the net cost base of the business is closely managed and controlled by management to ensure the appropriate balance of resource and cost to deliver the Group's purpose. The current level of net overheads, of around £19m



before variable incentives, looks somewhat high when there is no growth in net asset value. This £19m is spread across the three territories. The US and Australia cost base looks high relative to NAV because those businesses are relatively young and are scaling, with the objective of giving the Group improved access to capital and opportunities from these geographies. In the UK, the net fixed overhead base (before variable incentives) after Touchstone was £21m. It is now below £14m and we have achieved annual synergy savings of £8m.

- **Progress at Oxford Nanopore Technologies ('ONT')**

ONT has had an interesting start to the year with its core market, university research labs, obviously being closed due to the pandemic.

However, it has had an increasingly important role in the pandemic with its technology deployed in over 50 countries, the largest deployment of sequencing ever.

Its new diagnostic test, LamPORE, provides a deployable large scale and local test for COVID-19, therefore making it particularly useful for screening in airports, schools and businesses.

We will provide a more detailed update on ONT at the time of our half-yearly results, which will be released on 5 August 2020.

- **Board Succession Planning**

There were a number of changes to the Board in 2019, both to strengthen the Board, including from a diversity perspective, and to also prepare for known retirement plans from a succession planning perspective. These comprised the appointment of two new NEDs, Dr Caroline Brown and Aedhmar Hynes, and the retirement of one NED, Jonathan Brooks.

In addition, Professor David Begg, our Senior Independent Director, will have completed nine years of service in March 2021, taking into account his service at Touchstone Innovations, a factor that the Board and the Nomination Committee will be taking into account when looking at succession planning as part of their annual agenda during the year.