

IP Group

H124 results

Record exit underpinning the NAV

IP Group's realisation activity has picked up notably in the months leading up to the company's interim results publication in September, encouraging the company to increase the current buyback programme by £10m to £30m. Subsequently, IP Group agreed to sell the AI-powered financial crime detection business Featurespace to Visa. The exit will result in £134m in realisation proceeds at a 70% uplift to end-2023 carrying value, part of which was recognised in the H124 results, translating in a broadly stable value of IP Group's private holdings. The de-rating of listed Oxford Nanopore (ONT) was therefore the major driver behind IP Group's 9% NAV fall in total return (TR) terms in H124 to 104.7p, though nearly half of the ONT share price fall was reversed post end-June 2024, assisted by its half-year trading update and the [Novo Holdings investment](#).

IP Group's historical results highlights

Period end	Net cash* (£m)	Portfolio fair value** (£m)	NAV (£m)	NAV/share (p)	Price/NAV (%)***
12/22	160.1	1,259	1,376	132.9	(58)
06/23	111.7	1,276	1,314	126.7	(55)
12/23	91.7	1,165	1,190	114.8	(49)
06/24	29.2	1,111	1,072	104.7	(60)

Note: *Includes restricted cash but not funds held on behalf of Enterprise Investment Scheme/venture capital trust investors. **Portfolio fair value includes US platform and other LP interests. ***Based on share price at respective period end.

Offering access to disruptive innovation

IP Group allows investors to tap into the vast opportunity set of early-stage, innovative private companies (including university spin-offs), with a particular focus on the UK. We believe these companies are pursuing projects that relate to some of the most compelling investment themes over the next decade, spanning life sciences, deeptech (eg applied AI, next-generation networks, human-machine interface, quantum computing) and cleantech (eg hydrogen, nuclear fusion, electric vehicles). We note that the UK government has put tech innovation high on its agenda, as illustrated by 1) the Science and Technology Framework, 2) the R&D tax regime and 3) the Mansion House reforms, among others. The Mansion House reforms could potentially unlock £50bn in pension fund capital by 2030 for unlisted equities, part of which would likely be invested in early-stage UK tech businesses.

Making progress in crystallising portfolio value

IP Group's technical know-how, market knowledge, global relationships and evergreen structure make it well suited to support innovative businesses. IP Group's recent realisations, as well as management's expectations of further exits at or above carrying value through to end-2025, indicate that positive momentum is building across its portfolio. This should be put in the context of the current 52% discount to NAV. The company remains focused on doubling down on a narrow set of more mature, growth-stage businesses to generate returns. While most of these are yet to generate significant revenue, and the performance of most of IP Group's private life sciences portfolio is dependent on positive clinical trial results, we underline the high disruptive potential of many of IP Group's portfolio holdings.

Investment companies
Listed venture capital

11 October 2024

Price **50.00p**

Market cap **£498m**

Net cash at end-June 2024 £29.2m

Shares in issue (excluding treasury shares) 1.0bn

Code IPO

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 12.4 19.2 (2.7)

Rel (local) 11.9 18.8 (10.9)

52-week high/low 58.5p 36.0p

Business description

IP Group helps to create, build and support IP-based companies internationally. The group focuses on companies that meaningfully contribute to regenerative (Kiko), healthier (life sciences) and tech-enriched (deeptech) futures. The group is mostly active in the UK, with an additional international footprint through investment platforms in Australia, New Zealand and the United States.

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Private portfolio value largely unchanged in H124

Featurespace: IP Group's success story

While IP Group reported a broadly stable private portfolio value in aggregate in H124, we highlight the c 55% positive revaluation of **Featurespace**, an AI-powered fraud and financial crime detection business (with clients such as HSBC, Worldpay and NatWest), which delivered strong top-line growth of 46.5% in 2023 to £50.4m. IP Group underlined that this is significantly above the growth rate in the broader market and was supported by successful deployment of software to direct and indirect customers through transactional and licensing deals. The share of the company's recurring revenues increased to 79% in 2023 from 70% in 2022, and IP Group expects the business to approach £100m in revenue by 2025 or 2026.

After reporting date, IP Group announced that Visa has signed a definitive agreement to acquire Featurespace for an undisclosed sum, and that IP Group expects to receive a £134m cash consideration for its 20.1% stake in the business (£119m upon deal completion and £15m being a deferred consideration). The price of this large, record-breaking transaction for IP Group will translate into a further £14m increase versus the end-June 2024 carrying value of IP Group's stake (£51m or 70% vs end-2023), net of carried interest and deal costs. IP Group was the first institutional investor in the business in 2012 (which onboarded the current CEO Martina King shortly thereafter) and, as the company's largest shareholder has since invested £22.9m (of which £10m was in 2022), which means that the multiple on invested capital (MOIC) that will be realised by IP Group upon receipt of the full cash consideration stands at a healthy 5.9x.

Lower valuations of First Light Fusion and Ultraleap Holdings

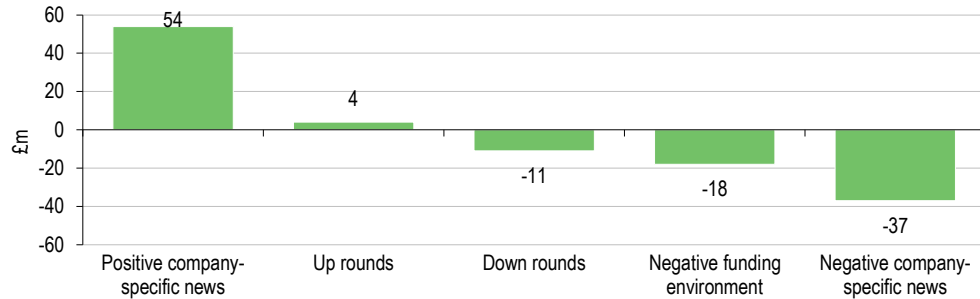
The strong performance of Featurespace helped offset a further carrying value reduction of the nuclear fusion business First Light Fusion and a partial write-down of Ultraleap Holdings, a human-machine interface business.

First Light Fusion (c 4% of total portfolio value at end-June 2024) is yet to complete its Series D funding round as the funding available for nuclear fusion projects in the market has not returned to 2021 levels. As a result, it was marked down (based on input from a third-party expert) by 24% in H124. Meanwhile, IP Group's management highlighted that the business achieved a major technical milestone in February 2024 as it became the first fusion company to successfully fire a shot on the Z Machine of Sandia National Laboratories (the largest pulse power machine globally), breaking the machine's pressure record (achieving higher pressures is critical in fusion energy development). IP Group highlighted that this also validates the company's ability to work with third-party facilities, potentially opening the door for a more capital-light business strategy. As part of this strategy, the company could provide its unique amplifier technology to various inertial confinement fusion energy programmes, potentially allowing it to generate revenue sooner (and give IP Group the opportunity for an exit through a trade sale). Finally, the company recently appointed Graham O'Keeffe as acting CEO, replacing the company's co-founder Nick Hawker, who became chief scientific officer. Graham is an experienced manager in the deeptech sector who navigated DisplayLink through a turnaround and sale to Synaptics.

Ultraleap Holdings was written down by £26.5m from £31.0m at end-2023 amid the company's restructuring and headcount reduction. The company has two complementary technologies: mid-air haptics (a technology that transmits tactile information via ultrasound waves using sensations such as vibration, touch and force feedback) and hand tracking. IP Group mentioned the changing dynamics and slower customer adoption in the extended reality (XR) sector, which we believe are at least partly due to the shift in emphasis of big tech companies from the metaverse to AI.

Furthermore, we understand that many companies in the sector are integrating their own hand-tracking capabilities into their XR headsets, reducing the need for standalone solutions like those from Ultraleap.

Exhibit 1: Drivers of private portfolio value changes in H124



Source: IP Group, Edison Investment Research

Four positive clinical trial results and only one failure in H124

Four companies reported positive clinical trial results in H124: Mission Therapeutics (Parkinson's disease), Storm (oncology), Kynos (acute and chronic inflammatory disorders) and Abliva (primary mitochondrial disease). While these are certainly positive developments, the H124 aggregate upward revaluation of these four holdings was only c £4.9m (c 0.4% of IP Group's opening portfolio value) and they represented c 4% of end-June 2024 portfolio value. Three of these companies reported positive results for Phase I or interim Phase I trials (which focus on the safety profile and dosage of the drug rather than efficiency), while another reported positive results for an interim Phase II trial (Abliva). With respect to the setback of Oxular's Phase II trial, we note that this was already factored in the end-2023 results and therefore had no major impact on IP Group's NAV TR performance. Overall, the carrying value of IP Group's life sciences portfolio excluding ONT was reduced slightly by £4.2m in H124.

The key potential near-term NAV catalyst in the private life sciences portfolio remains Istesso, which is yet to announce the Phase IIb clinical trial results for Leramistat (MBS20320) in rheumatoid arthritis. While there has been some delay in publishing the results (which IP Group initially expected in H124), this is not uncommon for clinical trials and does not suggest any particular trial outcome. Istesso was valued at £127.6m in IP Group's books at end-June 2024 (ie around 11% of total portfolio value and around 30% of IP Group's life sciences portfolio excluding ONT).

Beyond Istesso and the five clinical trial results released in H124, IP Group has nine companies expecting clinical trial readouts in 2024 or 2025 (of the 14 clinical-stage holdings and the total 33 life sciences companies in its portfolio), which in total make up c 12% of IP Group's end-June 2024 portfolio (and 31% of its life sciences portfolio excluding ONT), see Exhibit 2. We note that IP Group's returns may benefit from a revival in biotech M&A on the back of the recent onset of monetary easing in the US, as well as the persistent need of big pharma companies to fill their drug pipelines ahead of a major patent cliff. IP Group's management expects at least one deal (acquisition or a licensing agreement) in the next six months.


Exhibit 2: Clinical trial results expected across IP Group's life sciences portfolio

Therapeutics: within a milestone-rich window.

■ Positive results received in H1 24
■ Negative results received in H1 24

THERAPEUTICS PORTFOLIO	IP GROUP VALUE £m	COMPANY	2024	2025
ONCOLOGY	17.4	artios		Phase 2
	19.6	Crescendo	Phase 1/2	
	11.5	STORM	Phase 1/2	
	1.6	AKAMIS		Phase 1/2
	7.6	IKSUDA		Phase 1/2
	16.2	microbiota		Phase 1b
INFLAMMATION	127.6	intesso	Phase 2b	
	3.6	oxular	Phase 2	
	22.5	mission	Phase 1a	Phase 1b
	6.7	Kynos	Phase 1	
OTHER	23.0	ALIMODÉ		Phase 3
	7.9	entepire		Phase 2a
	17.2	CENTESSA	Phase 2b	
	1.3	ABLIVA	Phase 2/3	
	283.7			

*Timing reflects current best estimate of clinical readouts and is subject to change
 1. Based on a disclosed trial start date in 2024. We estimate trial completion in 2H 2025. PI SAD trial read out in H1 24, PI MAD still expected 2025
 2. Based on a disclosure in the media we estimate first batch of data to come in late 2025
 3. Phase 2b interim data for SerpinPC and Phase 1 interim data for ORX750 is estimated in Q4 2024
 4. Phase 2/3 interim positive data for K1333 were received in July 2024



Source: IP Group

ONT's share price rebounded strongly post reporting date

IP Group's 9% NAV fall in TR terms in H124 was primarily driven by the de-rating of listed ONT. One of the catalysts for the decline, apart from the overall challenging market environment, was weak quarterly results of major US peers (eg Illumina). That said, we note that nearly half of ONT's share price decline in H124 has reversed post reporting date, supported by its half-year trading update and the [Novo Holdings investment](#). In the half-year trading update, ONT reiterated its guidance for 2024 and the medium term, and it continues to target adjusted EBITDA break-even in 2027 and cash flow break-even in 2028. The company expects 20–30% underlying life sciences research tools (LSRT) revenue growth in FY24 on a constant currency basis at a gross margin of c 57% (vs 53.3% in FY23 and 56.3% in FY22). It also aims for a medium-term (ie FY27) growth rate of more than 30% per year on a constant currency basis, and an LSRT gross margin of more than 62% by FY27.

We believe that the positive market response in recent months may have been assisted by ONT's gradual revenue diversification away from the core research market (70% of revenue in H124), which faced headwinds from weaker demand in China amid US semiconductor export restrictions, into biopharma (9%), clinical (9%) and applied industrial (12%) markets, which should be important growth drivers going forward. We also note that ONT potentially may be included in the UK flagship index of top 250 companies once the golden shares expire in October.

An encouraging pick-up in realisations

IP Group has seen an uptick in exits in the year to date, most notably the above-mentioned £134m successful realisation of Featurespace, as well as further exits that yielded cash proceeds of £44.6m. IP Group's realisations announced or closed to date represent c 15% of its end-2023 portfolio value. Beyond Featurespace, a notable transaction was the sale of IP Group's 23.6% stake in Garrison Technology (one of IP Group's key deeptech holdings) to Everfox, resulting in £30m in realisation proceeds for IP Group (see our [June flash note](#) for details). The transaction was an encouraging step in crystallising IP Group's portfolio values, as it was completed at a price

broadly in line with previous carrying value. The sale consideration implies an MOIC of just over 2.2x over IP Group's holding period (IP Group gained exposure to Garrison through the acquisition of Touchstone Innovations in 2017, which backed Garrison's seed round in 2015). This is quite a solid result, even if somewhat below the level that would be considered a very successful venture capital investment (3x or more).

IP Group highlighted during the H124 investor presentation (before the Featurespace announcement) that it is experiencing strong investor interest in its assets and has a robust pipeline of further exits through to end-2025 (some of which are at an advanced stage), which it expects to conduct at or above the end-2023 carrying values. Moreover, IP Group could receive an additional capital return from Intelligent Ultrasound Group following the sale of its clinical AI business to GE HealthCare at an enterprise value of £40.5m, a valuation representing 33.8x the FY23 revenues at a 70.9% premium to Intelligent Ultrasound Group's last closing share price at the time of the announcement. Following the disposal, Intelligent Ultrasound will retain its simulation business, which generated total revenues of £10m in 2023.

Current share price implies a c 75% discount to private portfolio holdings

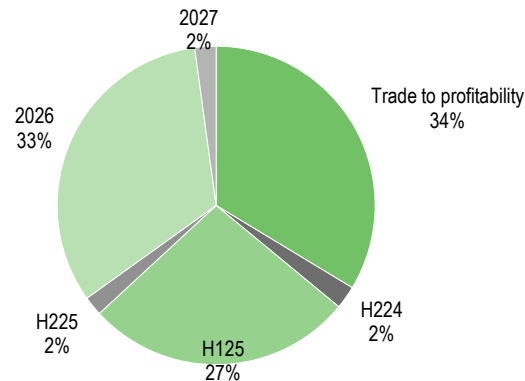
The percentage of down rounds has recently increased across the venture capital market, and IP Group reported eight new funding rounds across its holdings in H124 (versus 14 in H123), three of which were down rounds. However, these down rounds had a limited £11m impact on H124 portfolio valuations, as IP Group proactively reduced the carrying value of these holdings in FY23. This, together with IP Group's recent and expected further realisations at or above carrying value, illustrate the company's fairly prudent valuation approach and should be viewed in the context of the current wide c 52% discount to NAV, which is above the 20% threshold for conducting further NAV-accretive buybacks. The company recently increased the current buyback programme by £10m to £30m.

After stripping out IP Group's net cash and equivalents (including the Featurespace consideration) and the value of IP Group's listed holdings (based on last closing price) from its current market cap, we arrive at an implied private portfolio value that is around 75% below IP Group's carrying value. We acknowledge that most of IP Group's top 20 holdings are not generating significant revenue yet as they are at a pre-revenue or initial revenue stage. This includes First Light Fusion, Oxa and Hysata, as well as its unlisted life sciences companies that are mostly clinical-stage businesses (except for Hinge Health). The investment case of the life sciences businesses is characterised by a binary outcome (dependent on future clinical trial results). Many of IP Group's businesses will require further funding before they reach cash flow/EBITDA break-even, part of which will likely come from IP Group. Around 34% of IP Group's portfolio (including ONT and Featurespace) was funded to break-even at end-June 2024, though these holdings may decide to raise further funds to fuel their growth if needed. Another c 35% of the portfolio had a cash runway to 2026 and beyond and only 2% to H224 (see Exhibit 3).

That said, the current discount that the market applies to IP Group's private holdings seems wide considering their high long-term disruptive potential and large addressable markets, especially in the case of key holdings that IP Group sees as possible future unicorns (ie valued at US\$1bn or more). For instance, Hysata (in which IP Group held a 37.0% stake at end-June 2024) is developing a novel capillary-fed electrolyser that offers the prospect of affordable green hydrogen, which the International Renewable Energy Agency expects (together with hydrogen derivatives) to account for 14% of total final energy consumption by 2050. Another example is Oxa, a commercial-stage developer of autonomous software for any type of self-driving vehicles. IP Group cites a McKinsey study that estimates around 70% of off-road vehicles sold by 2030 will be autonomous.

Moreover, we note that IP Group's life sciences portfolio consists of 33 holdings, and even the success of only some of these may lead to outsized returns for IP Group.

Exhibit 3: Breakdown of IP Group's portfolio by cash runway



Source: IP Group, Edison Investment Research. Note: Covering investments with a value of more than £4m, representing more than 86% of IP Group's equity and debt investments.

IP Group's pro forma gross cash and deposits (after accounting for received exit proceeds) as at end-August 2024 was £183.7m, while its gross debt at end-June 2024 was £132.1m. Together with the proceeds from the Featurespace exit, this provides the company with a solid base to further support its portfolio companies. We also note IP Group's efforts to reduce overheads net of income to £8.7m in H124 (0.8% of end-June 2024 NAV) versus £10.3m in H123. IP Group aims to reduce the net overheads run rate by 25% by the end of 2024.

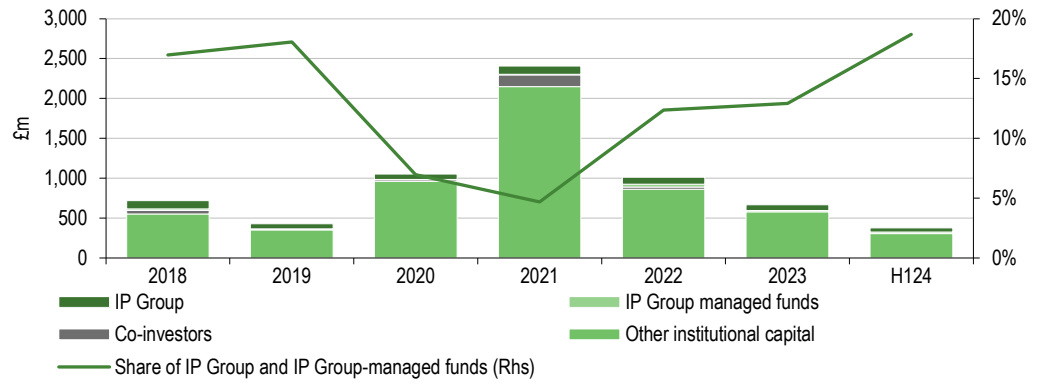
Doubling down on key holdings

IP Group's portfolio companies raised a total of £380m in H124 versus £298m in H123 and £667m in FY23. This includes an oversubscribed US\$111m Series B round completed by Hysata, which was an up round reflected in the end-2023 valuations (as its first close was at the end of 2023). The company will use the funding to expand its production capacity at its manufacturing facility near Sydney and for further technology development with the aim of reaching gigawatt-scale manufacturing.

There were also three major funding rounds among IP Group's life sciences holdings: 1) £35m was raised by Genomics, which has developed a unique rapid genetic screening platform that enables a prevention-first approach to healthcare; 2) £26m was raised by Enterprise Therapeutics to fund its Phase IIa clinical proof-of-concept trial in cystic fibrosis; and 3) Mission Therapeutics raised £25m to progress its clinical candidates in mitophagy. Both Enterprise Therapeutics and Mission Therapeutics are funded through to the next clinical milestone and value inflection point, according to IP Group.

IP Group investments in H124 were primarily focused on supporting existing holdings and it contributed £49.1m, including an £11.7m investment in Hysata, £10.0m in Istesso, £3.7m in Pulmocide and Mission Therapeutics each, as well as £3.1m in Genomics. Together with the £21.9m investments from IP Group-managed funds, this represents c 19% of the total capital raised across IP Group's portfolio in H124 (vs 13% in FY23 and 12% in FY22, see Exhibit 4).

Exhibit 4: IP Group leverages significant third-party capital to support its portfolio



Source: IP Group, Edison Investment Research

Exhibit 5: Financial summary

Year end 31 December	£m	FY18	FY19	FY20	FY21	FY22	FY23
INCOME STATEMENT							
Portfolio returns		(46.1)	(44.6)	228.0	495.3	(309.1)	(160.5)
Fee income		9.9	8.6	6.2	13.6	7.1	5.9
Revenue		(36.2)	(36.0)	234.2	508.9	(302.0)	(154.6)
Cost of sales		0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit		(36.2)	(36.0)	234.2	508.9	(302.0)	(154.6)
Carried interest charge		1.1	1.3	(14.3)	(17.2)	(12.0)	4.7
Operating costs		(51.7)	(39.4)	(29.4)	(33.1)	(27.4)	(28.0)
Investment and acquisition costs		0.0	0.0	0.0	0.0	0.0	0.0
Normalised operating profit		(86.8)	(74.1)	190.5	458.6	(341.4)	(177.9)
Exceptionals		(203.2)	0.0	0.0	0.0	0.0	0.0
Share-based payments		(1.9)	(2.3)	(2.9)	(2.6)	(2.9)	(2.6)
Reported operating profit		(291.9)	(76.4)	187.6	456.0	(344.3)	(180.5)
Net Interest		(1.8)	(2.4)	(1.5)	(1.4)	0.8	4.2
Profit Before Tax (norm)		(88.6)	(76.5)	189.0	457.2	0.0	(173.7)
Profit Before Tax (reported)		(293.7)	(78.8)	186.1	454.6	(340.6)	(176.3)
Reported tax		(0.1)	(0.1)	(0.7)	(5.3)	(1.0)	1.9
Profit After Tax (norm)		(88.6)	(76.6)	188.3	451.9	(339.6)	(175.6)
Profit After Tax (reported)		(293.8)	(78.9)	185.4	449.3	(344.5)	(174.4)
Minority interests		0.1	3.4	0.0	(1.1)	0.0	3.5
Net income (normalised)		(88.5)	(73.2)	188.3	450.8	(339.6)	(172.1)
Net income (reported)		(293.7)	(75.5)	185.4	448.2	(344.5)	(170.9)
Basic average number of shares outstanding (m)		704	1,059	1,059	1,062	1,060	1,036
EPS - basic normalised (p)		(8.4)	(6.9)	17.7	42.5	(32.8)	(16.6)
EPS - diluted normalised (p)		(8.4)	(6.9)	17.6	41.9	(32.8)	(16.6)
EPS - basic reported (p)		(27.7)	(7.1)	17.5	42.3	(33.3)	(16.5)
Dividend (p)		0.0	0.0	0.0	1.48	1.22	1.27
Net overheads (operating costs less fee income)/NAV (%)		(2.1)	(3.4)	(2.7)	(1.7)	(1.1)	(1.9)
BALANCE SHEET							
Fixed Assets		1,147.7	1,068.5	1,186.1	1,539.5	1,266.2	1,175.1
Intangible Assets		0.7	0.4	0.4	0.4	0.4	0.4
Tangible Assets		1.5	1.1	0.8	0.3	0.4	1.4
Investments		1,128.2	1,045.6	1,162.7	1,445.9	1,165.8	1,103.0
Investments in Associates		17.3	21.4	22.2	92.9	99.6	70.3
Current Assets		225.6	227.2	289.2	339.8	291.6	236.5
Stocks		6.6	32.3	18.9	17.9	50.1	9.6
Cash & equivalents		129.0	121.9	127.6	105.7	88.7	100.9
Deposits		90.0	73.0	142.7	216.2	152.8	126.0
Current Liabilities		(31.9)	(41.4)	(26.4)	(34.1)	(23.2)	(23.4)
Creditors		(16.5)	(26.0)	(11.0)	(18.7)	(16.9)	(17.1)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings		(15.4)	(15.4)	(15.4)	(15.4)	(6.3)	(6.3)
Long Term Liabilities		(123.2)	(112.4)	(117.0)	(107.1)	(158.5)	(197.9)
EIB loans		(82.4)	(67.1)	(51.9)	(36.4)	(75.1)	(128.9)
Other borrowings		(23.0)	(26.0)	(32.9)	(18.7)	(19.5)	(19.8)
Lease liabilities		0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(17.8)	(19.3)	(32.2)	(52.0)	(63.9)	(49.2)
Net Assets		1,218.2	1,141.9	1,331.9	1,738.1	1,376.1	1,190.3
Minority interests		3.9	0.5	0.5	(3.1)	(5.6)	(9.1)
Shareholders' equity		1,214.3	1,141.4	1,331.4	1,735.0	1,370.5	1,181.2
Hard NAV per share (p)		115.0	107.8	125.3	167.0	132.9	114.8
CASH FLOW							
Op Cash Flow before WC and tax		(75.7)	(72.6)	191.9	460.2	(340.8)	(177.3)
Revaluation of investments held at fair value through P&L		(94.0)	46.1	44.6	(228.0)	(495.4)	160.5
Working capital		7.8	14.1	(5.9)	30.0	(3.5)	0.0
Exceptional & other		(3.1)	(3.4)	14.5	15.2	9.7	2.7
Net operating cash flow		(24.9)	(17.3)	(27.5)	10.0	(25.5)	(14.1)
Capex		(0.6)	(0.7)	0.0	(0.2)	(0.3)	0.0
Acquisitions/disposals		(4.8)	(9.3)	(4.5)	(10.1)	(4.6)	(9.8)
Equity financing		(100.9)	(63.0)	(68.6)	(131.6)	(97.4)	(64.0)
Dividends		0.0	0.0	0.0	(15.0)	(12.3)	(13.0)
Other		29.0	83.2	106.3	124.9	121.1	119.1
Net Cash Flow		(102.2)	(7.1)	5.7	(22.0)	(19.0)	18.2
Opening net debt/(cash)		(222.3)	(121.2)	(112.4)	(203.0)	(270.1)	(160.1)
FX		(0.1)	0.0	0.0	0.1	0.0	0.0
Other non-cash movements		1.2	(1.7)	84.9	89.0	(91.0)	(86.6)
Closing net debt/(cash)		(121.2)	(112.4)	(203.0)	(270.1)	(160.1)	(91.7)

Source: IP Group accounts, Edison Investment Research

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