# Private to Public Opportunities Fund No.3

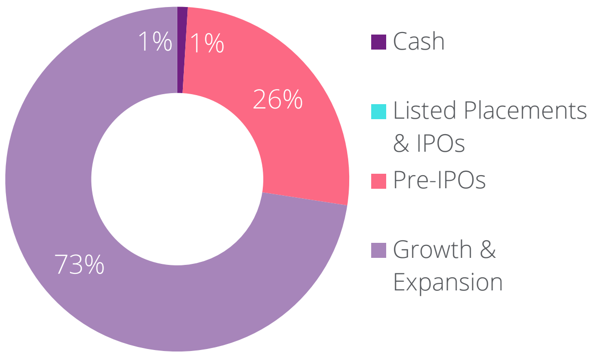
Quarterly Report December 2023

| | NAV ($) | Quarter (%) | CAGR[2] (%) | Since Inception[1] Cumulative (%) |
|---|---|---|---|---|
| Perennial Private to Public Opportunities Fund No.3 | 1.009 | +0.2 | +0.3 | +0.9 |

## Performance Update

The Private to Public Opportunities Fund No.3 (PPP3) delivered +0.2% (net of fees) for the quarter ending December 2023. Since inception in August 2021, PPP3 has returned +0.9% (net of fees) and is fully deployed.

## Current Fund Allocation

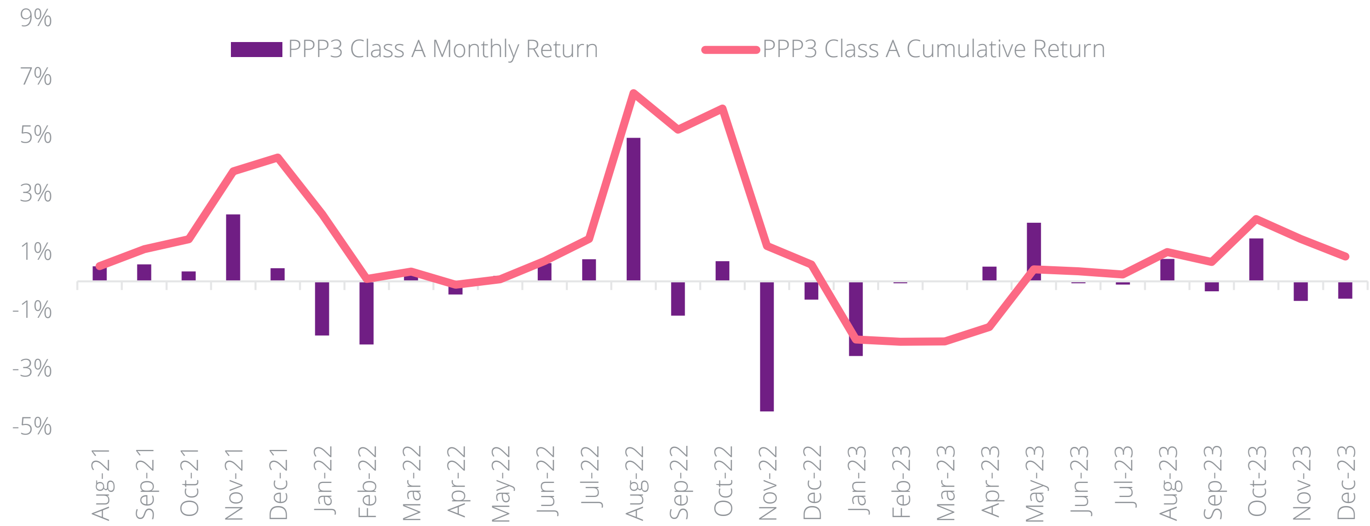



During the quarter, there were a number of offsetting impacts which resulted in an overall small uplift. One positive contribution came from an uplift to our position in an enterprise SaaS business following a primary capital raise at a higher valuation. Performance also benefited from an uplift to the carrying value of an HR tech company following the conversion of existing convertible notes into preference equity. The conversion of notes held in a B2B e-commerce business also contributed positively to performance. This was triggered by its merger with another e-commerce software business, with the combined entity boasting improved scale and operational capacity. During the quarter, the Fund also made a small follow-on investment in a proptech business as part of a broader round to drive sales and support product development.

The key driver of negative performance during the quarter came from a reduction in the carrying value of a digital infrastructure investment. This followed a material primary capital raise at a lower implied valuation, with the company using the proceeds to fund current and future working capital. The strength of the $A during the period also negatively impacted the valuation for PPP3's foreign currency domiciled companies. We took the decision to reduce our listed exposure during the quarter in PPP3.

In general, the private investments held in PPP3 continue to perform well as they represent structural growth businesses across multiple industry sectors. However, as a result of the current macro volatility, we expect the private positions in PPP3 to take longer to reach an ASX listing. On the other hand, M&A activity within the Fund's private company portfolio has seen a marked increase in recent months, and we expect this to be a key driver of returns during CY24.

## Return Since Inception[1] Net of Fees (%)




[1] Inception date for PPP3 is 18 August 2021. Performance shown is net of fees. It does not take into account any taxes payable by an investor. Past performance is not a reliable indicator of future performance.

[2] CAGR is compound annual growth rate.

## Private Markets in 2023

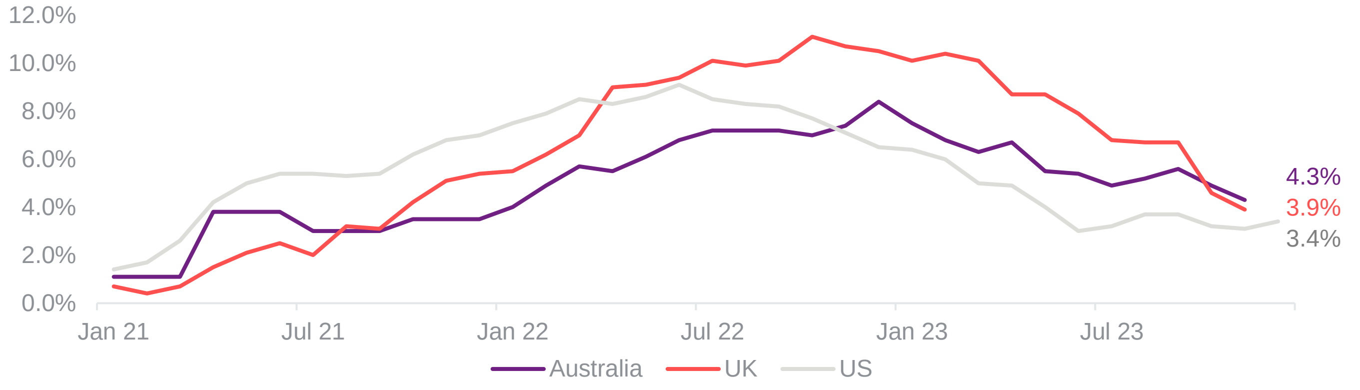
It is often said that 'no two years in the market are the same', and that was certainly the case in 2023. It was a volatile year characterised by high interest rates, persistent inflation, macro uncertainty, slow decision-making and increased geopolitical risks. It was also a year where private companies focused on their cost base, cashflow and balance sheet, with growth & expansion less of a priority. While this market uncertainty has created good investment opportunities in private markets, general confidence was low and deal cadence remained slow over the last year. IPO activity was again subdued in 2023, however M&A activity increased, with a number of our portfolio companies either executing or investigating mergers in order to generate greater scale and synergies.

As a general market theme, private companies are opting to 'stay private for longer' which ensures that Perennial continues to see a strong pipeline of high-quality proprietary deal flow. Our ability to be a funder of private companies to IPO and beyond often makes Perennial the partner of choice for many founders. In addition, we have seen a reduced number of other private capital providers in the market in the last two years. During 2023, we undertook approximately 30 transactions across our 5 private funds which included both follow-ons in our existing portfolio companies as well as new private investments. The current market uncertainty has enabled us to execute these transactions on favourable terms for our investors. These various themes in private markets are discussed in more detail below.

## Economic Trends

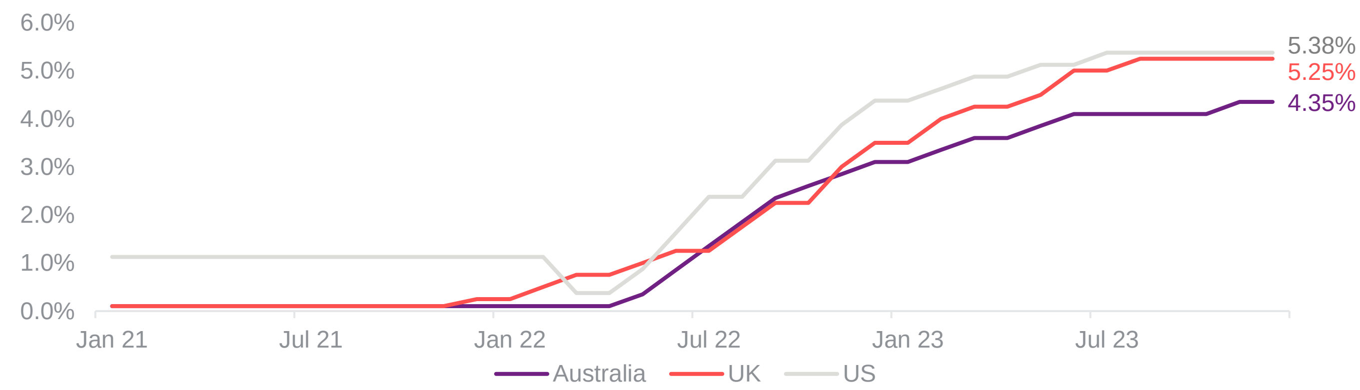
Macroeconomic trends were again a key driver of private & public markets in 2023. While the consensus view is that interest rates are now top of the cycle (or close to it), there is widespread debate about the timing of rate cuts given the persistent level of high inflation globally. While consumer & business demand has reduced as a result of the successive rate increases, cost-push inflation remains a key concern given high government spending, strong wage rises, higher energy prices and ongoing supply chain issues. At present, Australia has higher inflation and lower interest rates than the USA and UK.

Consumer Price Index (year-on-year % change) – Australia, UK, USA




Source: RBA, Office for National Statistics and U.S. Bureau of Labour Statistics
Note: Australia CPI is on a quarter by quarter basis until monthly data was available from January 2022

Central Bank Policy Rate (%) – Australia, UK, USA



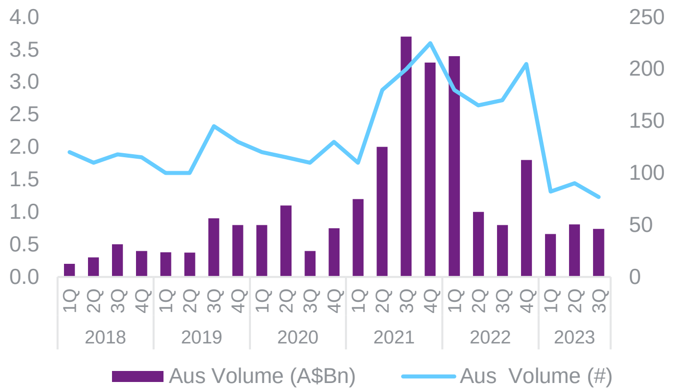

Source: RBA, Bank of England and Forbes
Note: The US rate is calculated as the mid-point of the Fed Funds Rate range at that point in time

## Private Deal Flow

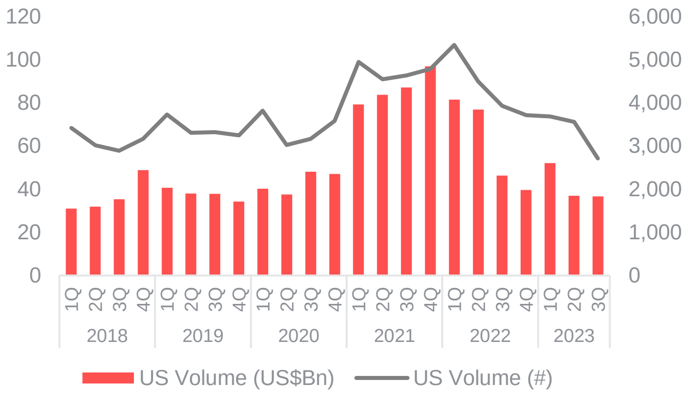
During 2023, private markets transaction activity remained subdued in terms of both volume and value, and was below 2022 levels in most quarters. As highlighted on the first two charts below, 2023 represented the second year in a row of lower activity compared to the frothy levels experienced in 2021 (the data shown is up to 3Q CY23). In addition, deal cadence was slow, with many transactions taking longer to negotiate and close than in previous years.

However, the combination of cautious markets, lower valuations, better deal terms and limited suppliers of private capital has resulted in much more investor-friendly markets. This is highlighted on the second chart below which outlines the valuation reset for Australian and American listed technology companies over the last two years.

Australian Quarterly Deal Volume & Value

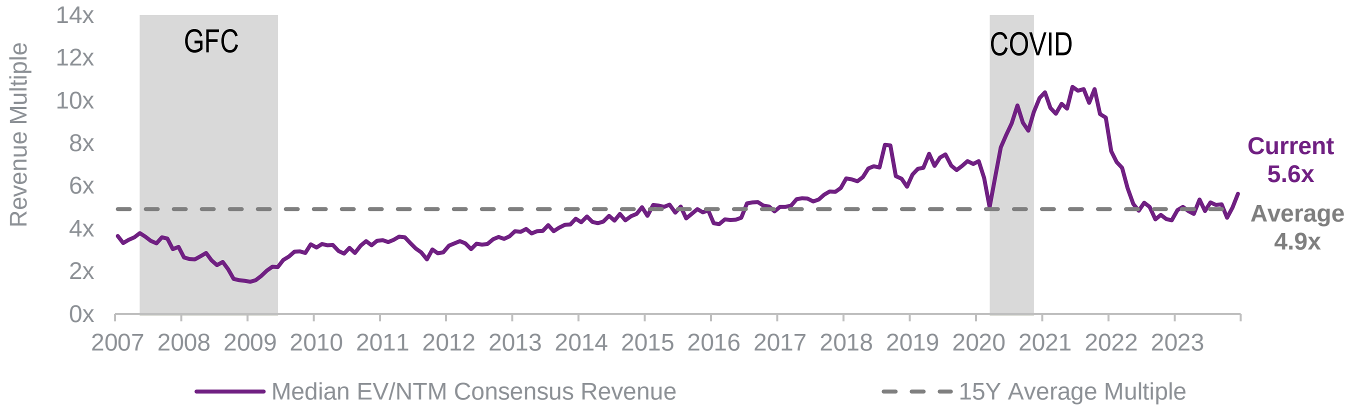



USA Quarterly Deal Volume & Value




Source: Cut Through Ventures and Pitch Book

Valuation Reset for Australia and US Technology Companies - EV / NTM Consensus Revenue




Source: Citi, Factset, Perennial

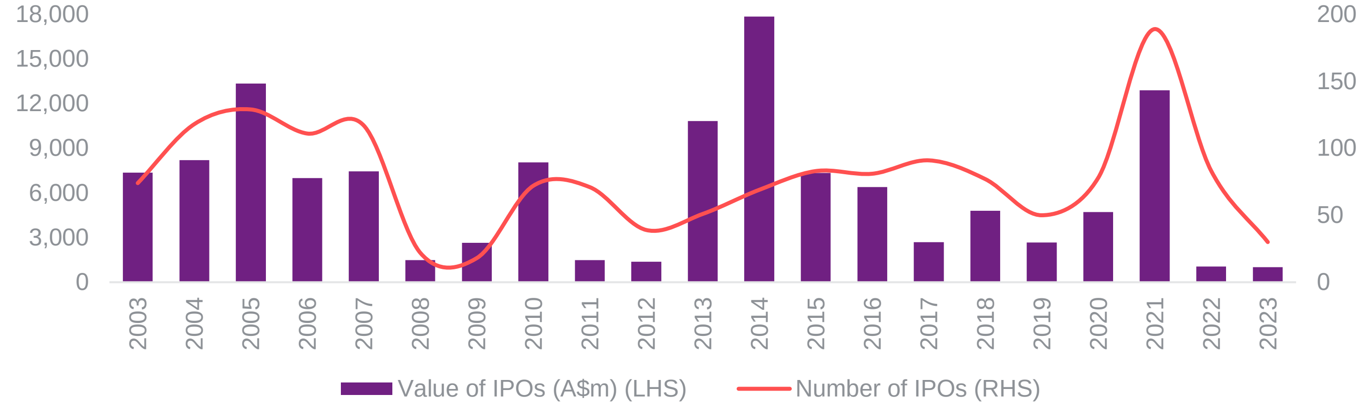
## IPO and M&A Activity

We saw an ongoing low level of IPO activity on ASX in 2023. The 30 IPOs in 2023 represented a 64% decline from 2022 and an 84% decline from 2021. In addition, the vast majority of the IPOs last year were in resources & energy - two sectors that our private funds do not invest in due to their inherent cyclicality. In terms of share price performance, last year's IPOs were again mixed with the majority trading below issue price by year end. As we have commented in previous newsletters, overall IPO performance in Australia has been very poor over the last four years due to a combination of high pricing, unfavourable deal structure and volatile equity markets. The US market exhibited a slight improvement in IPO activity in 2023, however like the ASX, it remains at low levels.

On a more positive note, M&A activity in both the listed and private market persisted during 2023. We have successfully exited a number of private investments via trade sale over the last year, and several portfolio companies are in discussions regarding M&A transactions. While some of these transactions may not be successful, we expect private takeovers to remain a driver of fund performance in 2024.

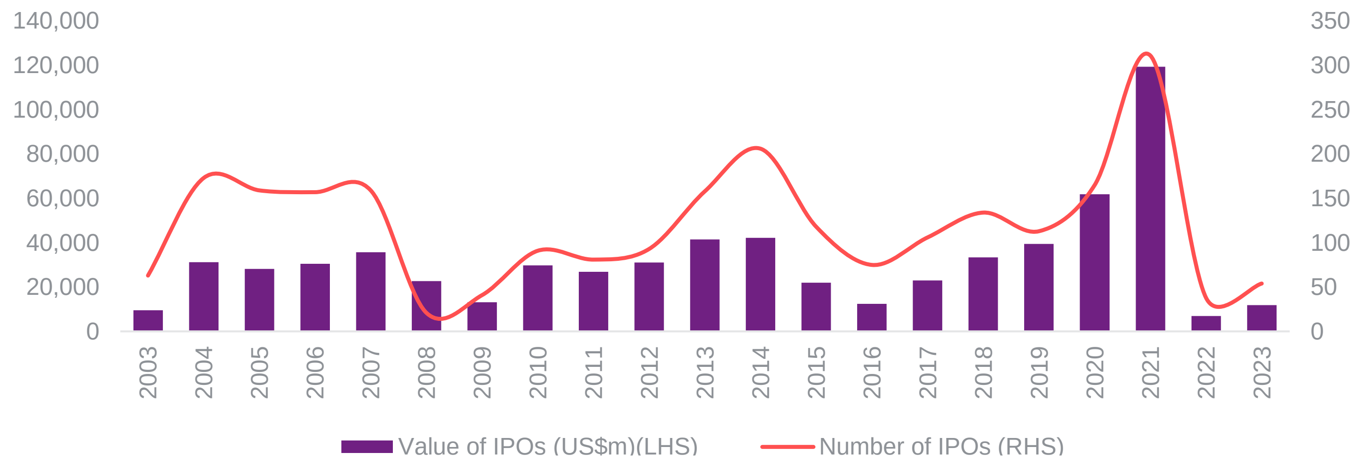
## IPO and M&A Activity (continued)

### Annual IPOs on ASX by Volume & Value over the Last 20 Years




Source: Ord Minnett, ASX, Perennial

### Annual IPOs on NYSE / NASDAQ by Volume & Value over the Last 20 Years




Source: University of Florida, Perennial

## Outlook for 2024

In terms of the outlook for 2024, in the near term we are likely to see a continuation of global market uncertainty given a mixed macroeconomic environment and increasing geopolitical risks. Within the domestic private market specifically, the recent trends of tight capital, slow deal cadence and a focus on profitability are likely to remain key drivers this year. Whether a private company wants to attract new investors or consider an IPO and/or trade sale, it will need to display a compelling combination of an existing strong revenue base, profitable & predictable growth, unique IP & competitive advantage, committed founders and supportive counterparties.

The domestic IPO market is unlikely to be tested until March/April 2024 at the earliest, and will take its lead from the behaviour of listed equity markets between now & then. In our view, it will need to be a period of 'no more surprises' for any sizeable IPOs to get away in 1H CY24. Given the high level of M&A activity we are currently seeing across our private portfolios, this will remain an important dynamic in the next year. In an environment of mixed global growth, large companies will increasingly look to bolt-on acquisitions in order to drive earnings and valuation. Merger activity will also continue in the private market as smaller players look to create scale and capture synergies prior to the next transaction. While many private companies on an IPO pathway will continue to wait for an optimal window, others will pursue a private takeover instead, which can often be executed at a higher valuation than the listed market given the premium paid for control.

In our view, the pipeline of private investment opportunities will continue to expand into 2024, as founders will opt to stay private for longer should the capital be available to support them. Many of the structural growth businesses that we have invested in can thrive in any environment, as they did during the various COVID interruptions over the past few years. Following the recent reset in valuations & terms in private markets, we expect the opportunity to make great investments into great companies will continue in 2024 for our Perennial private funds.

## Company Snapshot – Koala

| Sector | Investment Stage | Brief Description |
|---|---|---|
| Retail | Unlisted Expansion and Growth | Vertically integrated e-commerce furniture retailer |

PPP3 has been invested in Koala since 2021 and holds convertible notes.

Led by co-founder and CEO Mitch Taylor, Koala is a vertically integrated furniture e-commerce company which has transformed the furniture experience for consumers. Since launching in 2015, Koala has become a key player in the furniture and mattress market in Australia. The business has successfully expanded globally into Japan and South Korea since then.

The global furniture & mattress market has historically been characterised by inefficient production, poor supply chains, unnecessary middleman costs and the reliance on traditional retail channels. Koala has been a pioneer in re-shaping the mattress & furniture industry through an efficient production process and supply chain and selling directly to the end consumer.

From an ESG perspective, the company remains BCorp certified and continues to work on new designs to further reduce the environmental footprint of its products.

koala Product Overview

Mattresses

Sofa Beds

Bed Bases

Sofas

The Koala investment case can be summarised as:

- A restructure in August 2022 allowed the business to reach underlying operating profit. These initiatives reduced the fixed cost base of the business;
- Koala has delivered modest top line growth despite difficult market conditions in the last 12-24 months for retail. Gross margins and cash flows have both improved, and in 1H FY24, the company has continued to experience growth in Japan and Australia;
- The successful build out of its Japan and South Korea businesses has demonstrated the global demand for its furniture products and the convenience of the offering;
- 2H FY24 will see entry into the US market via a low-cost model. This represents a significant addressable market which will support top line growth;
- The roll out of new products in recent years, expanding from the bedroom into the living room and other areas of the house, will enable the business to extract further value from its customer base; and
- Koala's proprietary technology enables end-to-end supply chain management and a delivery performance that is better than most retailers, and results in strong unit economics.

## Company Snapshot – InDebted

| Sector | Investment Stage | Brief Description |
|---|---|---|
| Fintech | Unlisted Expansion and Growth | Consumer debt recovery |

PPP3 has been invested in InDebted since 2021 and holds preference shares.

Founded in 2016 in Sydney, InDebted's purpose is to change the world of consumer debt recovery by delivering an improved collection experience for both consumers and creditors. At the heart of the business is an automated, data-driven and customer-centric digital platform providing an improved experience and more efficient process for all parties.

The platform uses machine learning and behavioural data to personalise the collections process for each individual consumer. As a result, InDebted has a 4.9-star rating on Google, with over 2,000 reviews from consumers using the platform to pay off their debt. Companies utilising InDebted are recovering balances at up to 40% greater rate than traditional debt collectors. InDebted's automated technology platform also enables them to recover smaller accounts that they would otherwise write off, while providing an experience to their customers that preserves established relationships. InDebted has enabled the debt collection process to be almost entirely 'self-serve', with 90% of customers managing their debts digitally through InDebted's globally scalable platform and product suite.

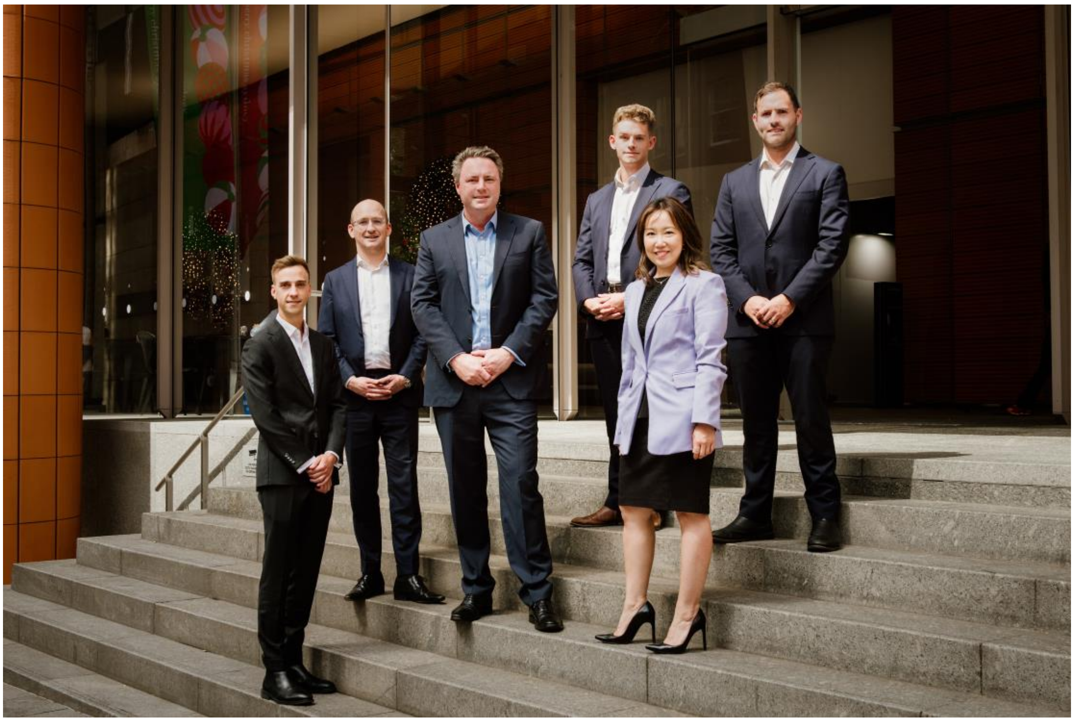
The business has scaled rapidly since launch, now operating in 5 countries. Much of this growth has been driven by existing B2B customers taking InDebted into new markets in which they operate. Coupled with InDebted's sophisticated platform and machine learning engine, their ability to collect smaller debts that are difficult to manage cost effectively, has been a key driver of success. The company has attracted a number of large corporate customers such as Afterpay (Block), Klarna and Affirm. Beyond debt collection, InDebted is developing allied products which provide additional growth opportunities in the future and a 'second chance' financial rehabilitation platform.

The InDebted investment case is supported by:

- Clear global market leadership in digital debt collection;
- A strong thematic and structural growth story. We believe InDebted is well positioned in the current market. With higher interest rates globally, businesses are likely to see increased bad debts and given InDebted's customer-centric approach, we believe businesses will continue to favour them over traditional call centre debt collection agencies;
- An attractive financial profile with a sizeable revenue run rate of over US$20 million as at October 2023, a 3-year revenue CAGR of more than 100% (including acquisitions) and gross margins over 70%. Further, the company has now reached profitability as it reaps the benefit of its operating leverage;
- A strong acquisition strategy where InDebted can swiftly implement their proprietary technology which provides an immediate increase in collection / revenue generation and improves margins. InDebted targets companies with limited digital capabilities, higher costs or legacy vendors and limited or no self-serve functionality;
- An experienced management team led by Josh Foreman with a history of successful execution; and
- A growing client base across multiple geographies and verticals.

Thank you for your continued interest in PPP3.

Yours sincerely
The Perennial Private Investments Team



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