



# CIBUS CAPITAL LLP: CIBUS VALUATION POLICIES AND PROCEDURES

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## Introduction

- This Valuation Summary applies to investments and proposed investments by:
  - funds managed by Cibus Investments Limited (including but not limited to Cibus Fund LP, Cibus Clara Fund LP and Cibus Enterprise Fund LP) (the 'CIL Funds');
  - funds managed by Cibus Investments II Limited (including Cibus Fund II LP, Cibus Enterprise Fund II LP and Cibus Real Assets Fund LP) (the 'CIL 2 Funds'); and
  - any managed accounts, co-investment vehicles and direct investments of all such funds;

(together the '**Cibus Funds**' and each such fund, a '**Cibus Fund**') as advised by Cibus Capital LLP. ('**Cibus**')

- The Cibus Funds are required to prepare valuations for investors on a regular basis and this document sets out the procedures and policies that will be adopted in such determination of valuation.
- Cibus has been engaged to provide investment advice to certain funds, managed accounts, sub-funds and pools of third-party client assets and may use external consultants, to provide investment research and monitoring activities to support this activity.
- The Cibus Funds' valuation policies and procedures are designed to ensure that all investments are valued in accordance with the Cibus Funds' Offering Documents and the International Private Equity and Venture Capital ('IPEV') valuation guidelines.
- The estimates and assumptions used for valuing the Cibus Funds' investments will form an integral part of financial reporting to investors on their holdings in the Cibus Funds.
- The aim of these policies and procedures is to achieve, to the extent reasonably practical, an estimate of the fair value of the Cibus Funds' investments, and in so doing, uses the fair value measurement approach.
- The Cibus Funds adopt US GAAP, under which FAS 157 defines fair value as the price that would be received by a willing seller of an asset from a willing buyer in an orderly market transaction, as at the measurement date.
- It is recognised that investors in the Cibus Funds need sufficient, timely, comparable and transparent information on the performance of their investments in order to discharge their fiduciary duty to monitor their investments, provide the necessary degree of reporting to the providers of their capital, beneficiaries and boards etc. and in the production of their financial statements, consistent with applicable accounting standards.

## Valuation Committee

To this end, an internal valuation committee (the '**Cibus Valuation Committee**') has been established with responsibility for the regular determination of fair value prices for the Cibus Funds' investments.

The Cibus Valuation Committee's responsibilities include:



- i) Establishing policies for the implementation of the valuation procedures set out in the Cibus Funds' Offering Documentation;
  - ii) Supervising compliance with these valuation policies and procedures;
  - iii) Managing relationships with third parties that may be engaged by the Cibus Funds in connection with the valuation of investments, including the administrator, auditors and valuation consultants;
  - iv) Reviewing the valuation of each Cibus Fund investment; and
  - v) Reporting to the Cibus Funds' respective advisory committee or appropriate governing body on all valuation matters.
- The composition of the Cibus Valuation Committee is intended to achieve appropriate independence and representation from the various parties that have an interest in Cibus Funds' valuations. The Cibus Valuation Committee is chaired by Jeremy Alun-Jones, and the quorum for any meeting shall be any two (2) of the following (or their alternates):
    - Rob Appleby;
    - Jeremy Alun-Jones (Chair);
    - Olga Teteruk
    - Fred Appleby
  - The following individuals are observers of the Cibus Valuation Committee:
    - Priyesh Malavia
    - Georgia Muskett

## **Valuation Committee Procedures**

- The Cibus Valuation Committee meets at least quarterly and receives reports from and/or meets with the various investment staff and consultants responsible for the relevant Cibus Fund investment prior to making any determination on valuation, with all decisions and meetings clearly documented.
- Decisions of the Cibus Valuation Committee are based on a majority approval (provided that such majority always includes at least one non-investment professional) and disputes or disagreements are referred to the auditor, Grant Thornton or the respective Cibus Fund's LP Advisory Committee ('LPAC').
- Minutes of the Cibus Valuation Committee meetings are taken by the COSEC, circulated and approved at subsequent Cibus Valuation Committee Meetings.
- The Cibus Valuation Committee adopts valuation procedures and definitions that are consistent with the IPEV Valuation Guidelines. These guidelines are not prescriptive but provide a framework and are intended to be applicable across a range of alternative investment funds such that not all aspects of the guidelines are applicable in the case of certain Cibus Fund investments. The Cibus Valuation Committee may therefore make judgements as to which IPEV guidelines are most applicable to each Cibus Fund investment and may, at certain times, choose to ignore certain of these guidelines where it is believed that a better representation of fair value is thereby achieved.
- The primary aim of the Cibus Valuation Committee is to ensure that the valuation methodologies used in the determination of the fair value of Cibus Fund investments are consistently used across assets and across time.
- A distinction is made in the IPEV valuation guidelines between the basis of valuation (Fair



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Value), which defines what the carrying amount purports to represent, the valuation technique (such as DCF or the earnings multiple technique), which details the method or technique for deriving a valuation and the inputs used in that valuation technique (such as Revenue, Cash burn rates, EBITDA and/or earnings).

- The IPEV valuation guidelines are hierarchical with different methods used to establish fair value depending upon the level of liquidity available in the purchase and sale of similar assets.

For each investment, the Cibus Valuation Committee determines the extent to which there is an established “market” in the trading of that investment (if any), or similar assets with consideration of the following:

- i) For investments quoted on an active market (i.e. one in which transactions are taking place regularly on an arm’s length basis) (“**Level 1 Investments**”), the Cibus Valuation Committee measures the valuation based on the volume weighted average price over a 30 day trading day period, less 10% for illiquidity (where appropriate). Where there is no such active market, the Cibus Valuation Committee may deem that the investments be valued as if they are illiquid investments as described below;
- ii) For illiquid investments, which are not quoted on a recognised stock exchange or over-the-counter market or for which regular quotes are not likely to be frequently or easily obtainable, irrespective of whether or not such investments are listed on a stock exchange, where quotations are obtained from a broker, dealer or other third party pricing source (“**Level 2 Investments**”), the Cibus Valuation Committee will review the appropriateness and consistency of the prices obtained (e.g. arm’s length, willing market participant, counterparty, prime broker, investment banking arranger or other source), recent volume, trading activity and outliers and, where appropriate, the process by which such quotes are obtained and reconciled and may choose to make adjustments; and
- iii) For illiquid investments where no independent quotations are available, or where the quotes that are available are believed to be inaccurate (“**Level 3 Investments**”), the Cibus Valuation Committee will look to estimate fair value using a valuation methodology that is appropriate for the type and duration of the investment and which is in line with the Cibus Funds’ Valuation Policies, Practices and Methodologies as set out below. This will include recent fund raises by the company. **Most Cibus Fund Investments fall into this category.**

## Valuation Policies, Practices and Methodologies

- *Fund Valuation Policies:* The Cibus Funds’ valuation policies are designed to ensure that all investments are valued according to appropriate accounting and industry guidelines as well as being in accordance with each of the respective Cibus Funds’ offering documents. The estimates and assumptions used for valuing the Cibus Funds’ investments form an integral part of the quarterly financial reporting to investors on their holdings in the Cibus Funds.
- *Fair Value Objective:* The aim of the policies and procedures is to achieve, to the extent reasonably practical, an estimate of the fair value of each Cibus Funds’ investment. The objective of fair value measurement is to arrive at the price at which an orderly transaction would take place, under normal market conditions, between willing market participants at

the measurement date. A forced liquidation or distressed sale at the measurement date is not regarded as being an *orderly transaction*. To meet the objective of a fair value measurement, the Cibus Funds seek to consider, to the extent practical, all relevant market information that is available in a way which maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

- *Consistent methodologies:* The assessment of fair value for any investment, is obtained by applying a range of investment methodologies. Methodologies should be applied consistently from period to period, however, estimates should be validated periodically and adjusted if appropriate, where a change would result in a better estimate of fair value. Any changes in the valuation methodology of an investment should be ratified and documented by the Cibus Valuation Committee.
- *Market Sources for private equity and venture capital investments:* Ideally valuations would be obtained from a primary or secondary price source, however in private equity and venture capital investments, this tends to be infrequent, especially in the early stages of investment. However, the fast-growing nature of many of these investments leads to numerous and frequent capital raising rounds, which act as a proxy to more traditional public market valuations. In addition, transactions occurring in similar companies are monitored for indications of comparable pricing.
- *Minority Discounts:* minority or (lack of) marketability discounts are sometimes applied in the private equity industry. However, the Cibus Valuation Committee observes that successful take-overs in the public markets tend to be at a 20-30% premium, suggesting that public market prices tend to already reflect the price of a minority stake in a company. The need for minority discounts is therefore in the eyes of the Cibus Valuation Committee unlikely to be appropriate.
- *Methodology for valuing investments:* Illiquid investments which are not quoted on a recognised stock exchange or over-the-counter or for which regular quotes are not likely to be frequently or easily obtainable, irrespective of whether or not such investments are listed on a stock exchange, form a substantial part or all of the investment portfolio of the Cibus Funds.

Cibus Fund investments may trade privately between brokers and banks, or, more likely, may not trade at all. Consequently, no independently quoted price may be readily available.

*Methodology for estimating valuation of investments:* The Cibus Valuation Committee will seek to evaluate the fair value of investments using one or more of the following methods:

- i) **Market basis of valuation** – the market basis of valuation results from primary or secondary price sources, external funding rounds or third-party bids. The Cibus Valuation Committee may recognise any such sources, in the case of external funding or third-party bids, when signed term sheets have been exchanged. Where there is no market quote or where the market quote is regarded as unreliable, the following bases of valuation may be applied.
- ii) **Cost basis of valuation** – This method is used for valuations that occur in the period after investment or where it is judged that there has been little or no change in the operating metrics of the business since investment. Current replacement cost may also be considered. The Cibus Funds value their investments at cost until such time as, in the eyes of the Cibus Valuation Committee or the auditor, there has been a



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permanent change in value of that investment.

**Price of recent comparable transactions** – This method is used where there are sufficient corporate finance transactions in similar investments, similar sectors or industries and in similar or comparable geographies such that it is reasonable for the Cibus Valuation Committee to assume that such transaction(s) are reasonable proxies for a transfer of the Cibus Funds' assets at a similar valuation.

iii) **Model based valuations**

- a) The Cibus Valuation Committee seeks to develop the valuation of an investment (or its underlying collateral) using a range of methodologies (including multiples of sales, earnings, net assets compared to similar industry valuation benchmarks, discounted cash flow analysis and/or available market prices) and a comparison of the results for these different methodologies (where appropriate) to provide the best estimate of fair value. These methodologies are based on an assessment of a company's business plan, adjusted where necessary, using appropriate parameters, to provide estimates of various recognised valuation benchmarks: EBITDA, Net Profit, Free Cash Flow, Book Value etc.
- b) The Cibus Valuation Committee will also utilise comparable multiples of these metrics from appropriate companies in the same or similar sector, in regions with similar operating environments, taking into account maturity of the business and with regard to competitive, regulatory, fiscal and governmental conditions, to provide an estimation of fair value.
- c) Central to the Cibus Funds' assessment of an investment is to develop a model for the company. This model, once developed is used by the Cibus Valuation Committee as the start point for Discounted Cash-flow (DCF) analysis. Such DCF analysis is likely to utilise a Terminal Multiple rather than use a Terminal In-perpetuity Growth Rate, with attention being given to the consistency of discount rates used in such DCF analysis.
- d) The Terminal Multiples used in such DCF analysis are determined from cash-flow multiples of similar companies. As wide a range of potential relevant comparable transactions is assessed, and the mean and modal averages are assessed. Also, the external market conditions are evaluated at the time of the investment transaction.
- e) In addition, multiples based on Price to Earnings, Price to Book, Price to EBITDA and/or Price to Replacement Cost ratios, are considered (where available and appropriate).
- f) When using the Discounted Cash Flows or Earnings (of the Underlying Business) valuation techniques to estimate the fair value of an investment, the Cibus Valuation Committee will:
  1. Derive the Enterprise Value of the company, using reasonable assumptions and estimations of expected future cash flows (or expected future earnings) and the terminal value, and discounting to the present by applying the appropriate risk-adjusted rate that captures the risk inherent in the projections;
  2. Adjust the Enterprise Value for surplus or non-operating assets or excess liabilities and other contingencies as well as relevant factors to derive an Adjusted Enterprise Value for the investee company;





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3. Deduct from this amount any financial instruments ranking ahead of the highest-ranking instrument of the relevant Cibus Fund in a liquidation scenario (e.g. the amount that would be paid) and taking into account the effect of any instrument that may dilute the relevant Cibus Fund's investment to derive the Attributable Enterprise Value; and
  4. Apportion the Attributable Enterprise Value appropriately between the relevant financial instruments.
- The Cibus Valuation Committee is aware that the key determinants of the value output from using DCF are the Terminal Multiple and the Discount rate and consequently considerable attention is paid to these metrics.
  - In many cases a triangulation of methodologies is used whereby market multiples, recent transactions and estimation of value via DCF are compared and a fair value assessed from these inputs.
  - Where appropriate, and at such frequency as it deems appropriate, the Cibus Valuation Committee may seek a valuation of an investment (or their underlying collateral) be provided from a third-party valuation consultant, from any counterparty to the transaction in question, from any servicing agent, monitoring accountant or from any other suitably qualified third party (the "Third Party Valuation Agents").
  - Any Valuation disagreements between the Administrator, Auditor, any Third-Party Valuation Agents and the General Partner should be referred to the Cibus Valuation Committee,
  - In the event that the Cibus Valuation Committee is unable to resolve a disagreement, the Cibus Valuation Committee shall refer the issue to the LP advisory committee of the relevant Cibus Fund, setting out the difference in valuations and the justifications provided in support of such valuation prices. Should the dispute not be resolved, then it may then be referred back to the LP advisory committee or to an independent reviewer.
  - Global Valuation Standards continue to evolve. The IPEV Board has entered into an understanding with the International Valuation Standards Council (IVSC) with the objective of promoting consistency between the IPEV Board's Valuation Guidelines and the IVSC International Valuation Standards (IVSs) and to enable these Valuation Guidelines to be positioned as providing sector specific application guidance of the principles in IVS.
  - The Cibus Valuation Committee continues to monitor both the IPEV valuation guidelines and developments in IVS and reserves the right to amend the policies herein as these guidelines and standards develop.

Jeremy Alun-Jones, Member, Cibus Capital LLP

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