THE TRENDLINES GROUP LTD.
(Incorporated in Israel)
(Company Registration No. 513970947)

RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT

The Board of Directors (the "**Board**") of P5 Capital Holdings Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") would like to provide its responses to the queries received from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 31 December 2021 ("**FY2021**") prior to the upcoming annual general meeting for FY2021 to be held by way of electronic means on 13 April 2022 at 3.00 pm. For avoidance of doubt, the Company does not respond to the commentaries made by SIAS since they merely set out the context of the questions raised.

<u>QUERIES FROM SIAS</u>

Q1. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **China: The group ventured into China with the opening of Trendlines Medical Shanghai Innovation Centre in Shanghai's Putuo District to "focus on developing innovations within Chinese medical device companies and to function as a platform for R&D, technology exchange, and business development" (page 7). <u>Can the board/management provide more details about the group's plan for China and the group's competitive advantage with the opening of the centre?</u>**

<u>Company's response</u>:
The Group has been active in China for more than 10 years, doing business development in relation to the Group and the Group's portfolio companies. During this period, some 15 portfolio companies have raised funds through these efforts, the most recent being CoreBone and Fidmi Medical. The Group views the Chinese market as an important part of our efforts globally. We are currently evaluating our plans in China moving forward.

(ii) **Dual primary listing: In Note 19(A) (page 154), it was noted that issuance expenses amounted to US$313,000. <u>How much did the company spend in total on the aborted dual listing? Can the board confirm that it has scrapped all plans for a dual primary listing on the Tel Aviv Stock Exchange given that it is now looking for PIPE investments?</u>**

<u>Company's response:</u>

As reported in Company's financial statements for the financial year ended 31 December 2021, the Company incurred US$313,000 in total as expenses towards the dual primary listing. We can confirm that at present we have no plans to do a dual primary listing.

(iii) **Stimatix GI: The group has invested in Stimatix GI since 2009, and this was one of the 10 most valuable portfolio companies since the IPO in 2015. In fact, in 2018, Stimatix was identified as the "Most valuable portfolio company". Since FY2018, the company has repeatedly reduced the fair value of Stimatix GI due to the "initial revenues of Stimatix GI being lesser than previous projections arising from the product's staggered launch". From FY2018-FY2021, the decreases were US$(8.1) million, US$(6.9) million, US$(10.0) million and US$(9.7) million. <u>Can management help shareholders understand the reasons for the shortfall in revenue projections in the past 4-5 years? Has the board considered an independent review to analyse the past investment thesis, valuations, board approvals, revenue projections, product and market strategy, etc? What are the key lessons learnt from Stimatix? What is the existing carrying value of Stimatix? Is there significant systematic risk that the carrying values of portfolio companies in the group are over-estimated?</u>**

<u>Company's response:</u>

As we have explained in Company communications with shareholders, such as investor presentations, earnings calls, etc. in the past regarding the Stimatix GI product, the acquirer has not met sales and marketing expectations of the Stimatix product, resulting in a shortfall of revenue projections. This is something over which the Group has no control, and the Group has also expressed its deep disappointment in the performance of this asset. Although the Group continues to believe in the product, the continuing failure of the acquirer to successfully sell the product has led to the series of write-downs that are referenced in the question.

The Group uses the services of an independent consulting firm that is expert in the medical device industry to analyze all aspects of Stimatix and to evaluate the asset.

The experience with Stimatix reinforces the Group's belief and practice that the Group cannot budget the cash flow based on revenues that are not guaranteed. The current carrying value of Stimatix is US$7.9 million.

In addition, the Group does not believe that there is a systemic risk in the valuations of our portfolio companies. As can be seen from the other exits by the Group, the carrying value of portfolio companies in our books on the eve of their exits have consistently been much lower than the purchase price at the exit. The Stimatix valuation is a unique case where it is our only portfolio company based on the estimated present value of a future royalty stream.

(iv) **Value creation: How much of the increase in portfolio value is due to increase in valuation (as opposed to additional investments)? On page 9, the company has stated that the portfolio value (including cumulative value of exits but excluding potential future earnouts) has increased by 123% since the IPO. <u>Can management provide a breakdown to show the increase due to (a) additional investments made, (b) higher valuation due to valuation multiple expansion etc.?</u>**

<u>Company's response:</u>

73% of the increase in our portfolio value is due to an increase in valuations as opposed to 27% which is due to additional investments. This can be seen in the table below:

	Portfolio Value * (USD)	Increase in Investments (USD)	Increase in Valuations (USD)
31.12.2015	$57,232		
31.12.2016	$58,850	$3,376	$ (1,758)
31.12.2017	$72,477	$2,502	$11,125
31.12.2018	$81,002	$1,725	$6,800
31.12.2019	$94,601	$1,380	$12,219
31.12.2020	$112,584	$5,787	$12,197
31.12.2021	$127,798	$4,553	$10,661
Cumulative		$19,323	$51,243
	123%	27%	73%

** including cumulative value of exits but excluding potential future earnouts*

(v) Net asset value per share: Does the board, especially the independent directors, track the net asset value per share as a measure of value creation? Please show the NAV/per share since the IPO.

Company's response:
The Board reviews and approves the Group's financial statements wherein the NAV per share is reported each financial year.

NAV per share since IPO

	NAV per share (USD)
2015	$0.17
2016	$0.15
2017	$0.15
2018	$0.14
2019	$0.13
2020	$0.12
2021	$0.13

(vi) Placement: On 19 January 2022, the company announced the proposed issuance of an aggregate of 169 million new shares in the capital of the company at a subscription price of S$0.12 for each ordinary share. The company's controlling shareholder, Librae Holdings Limited ("LH"), is also subscribing to 99 million new shares which will be 10.32% of the enlarged capital. The NAV per share as at 31 December 2021 was US$0.13 or S$0.17. The placement is at a discount of approximately 30% to the NAV. Can the independent directors help shareholders understand why it had approved the proposed issue of new shares at S$0.12? Given the board/management's confidence in the

prospect of the group, what is the company's rationale for issuing new shares at 30% discount to its NAV? Has the board considered the dilutive effect of the proposed new share issue to minority shareholders? If the company cannot issue new shares at or above NAV, can the board help shareholders to better understand the justification for the group to continue its expansion? Has the board considered other sources of financing, or even a privatisation by the controlling shareholder?

Company's response:
The Company would have preferred to issue the new shares at a subscription price at the NAV or above, however, the market price of the Company's shares deeply impacts the price at which a financing can be consummated.

It is also to be noted that the issue price of the subscription shares was a premium of approximately 15% to the weighted average price of the Company's shares when it had entered into the proposed subscription transaction on 19 January 2022. The proposed subscription was at this premium to our market price, reducing the dilution for existing shareholders. We are of the view that this financing demonstrated substantial confidence in the Company.

Please refer to the Company's announcement dated 19 January 2022 on the rationale for the proposed subscriptions as also briefly reiterated below:
"*The purpose of the Proposed Subscription is to meet the Group's anticipated general working capital requirement and direct and indirect investments into new, prospective or existing portfolio companies, allowing potential expansion of its investment activities. Given the capital-intensive nature of the Group's business, and the unpredictability of its cash flows, the Company believes it is in its best interests to have more cash for operations and investment.*"

Q2. In the year, OrthoSpin was sold to DePuy Synthes (the orthopedic company of Johnson & Johnson) for US$79.5 million. This generated US$15.8 million in proceeds for the group. This considerably improved the cash proceeds of the group for the year (page 8).

Under the old dividend policy, the company would pay out 40% of the net cash after tax proceeds from "Exit events".

However, in June 2021, the company announced a new dividend policy as follows:

It is the intention of the Board that dividends will be paid from the Company's Net Exit Proceeds (as defined below) according to the following formula: Net Exit Proceeds received during any financial year will first be applied, if necessary, to bring the Company's year-end cash balance to US$15 million. Once this cash goal is met, at least 20% of the remaining Net Exit Proceeds will be paid as dividend, provided that the calculated amount is at least US$1 million. The dividend payment is subject to Board's approval and the fulfilment of the relevant conditions prescribed by the Israeli Companies Law for the declaration of dividends.

Details of the company's dividend policy can be found here:

https://links.sgx.com/FileOpen/Dividend%20Policy%20June%202021.ashx?App=Anno un cement&FileID=671070

(i) Can the board help shareholders understand how it had arrived at the US$15 million in cash balance as the threshold?

Company's response:
The amount arrived at takes into consideration Group's budget and investment plans.

(ii) Without the sale of portfolio companies (for cash), how is the company able to generate cash flow from operations? Had it always been challenging for the company to maintain or increase its cash balance (to at least US$15 million)?

Company's response:
The Group's business model is predicated on the idea that exits will be the Group's primary source of cash flow. Having said that, we have several secondary cash flow sources, several which the Group hopes will increase in coming years.

- Management fees and carried interests from the venture funds that the Group manages;
- Income from Trendlines Innovation Labs;
- Fees for services charged to graduate portfolio companies; and
- Non-dilutive grants.

It has always been a challenge for the Group to maintain and increase its cash balance.

(iii) Given that the OrthoSpin exit is a major exit (along with ApiFix in FY2020), has the board considered declaring a dividend to reward shareholders? Can the board help shareholders recall if the company has given out any dividends since its listing?

Company's response:
Yes, the Board considered declaring dividend, and it was this deliberation that led to the establishment of the Group's dividend policy in 2021, as the previous dividend policy had expired in 2018. We have not paid a dividend to date, as we have not met the criteria to do so.

Q3. As shown in the disclosure on remuneration in the corporate governance report, the two executive directors received an annual remuneration package that exceeded S$1.0 million each.

Directors and Chief Executive Officers Remuneration						
Name	Fees (%)	Salary (%)	Bonus (%)	Other Benefits (%) *	Fair Value of Share Option (%) **	Total (S$)
Executive Directors						
David Todd Dollinger (Chair and Chief Executive Officer) (***)	–	68.95	16.45	3.45	11.15	1,049,059
Steve Rhodes (Chair and Chief Executive Officer) (***)	–	67.98	16.99	3.53	11.51	1,016,166

(Source: company annual report)

(i) How much of the bonuses were attributed to the sale of OrthoSpin to DePuy Synthes? It is noted that the remuneration of the directors had increased substantially from $550,000-$600,000 to over $1.0 million in FY2021.

Company's response:
Of the bonuses paid in FY2021, an amount of US$128,000 was attributed to the OrthoSpin exit in bonuses to each of the executive directors, as noted on page 71 of the FY2021 Annual Report.
It is to be noted that in FY2021, the remuneration to the executive directors decreased slightly from the previous financial year.

The two executive directors are both co-chairmen of the board and joint CEO.

(ii) Can the board/nominating committee ("NC") help shareholders understand the rationale for having dual CEOs and chairs? How did the NC determine and measure that the existing management structure has "worked well" for the company (page 62)?

Company's response:
It is not unusual for public companies to have two (2) persons holding both the executive chairman and CEO position. Given the nature of the Group's business, and the large number of portfolio companies that we support, the Board believes that having two managers sharing these two roles provides optimal support for our almost 60 portfolio companies. Our co-CEOs complement one another in their work with the portfolio companies, and act as built-in checks and balances on one another in terms of daily management and strategic planning. While having dual CEOs is unusual (and having an executive chair is not), academic research[1] suggests that when there is good synergy between the dual CEOs, the model can be highly successful.

In terms of the existing management structure working well for the Company, the Board

[1] E.g., Harvard Business Review, Sept. 15, 2020 (https://hbr.org/2020/09/is-ceo-a-two-person-job) and Financial Review, August 2011 (https://tinyurl.com/26ddun2v)

regularly sets goals for management and reviews the results against those goals. Overall, the Board believes that the Company has made good progress in its most important measures of performance: portfolio value, capital raises, trend to more/larger exits. The Board is also confident that ultimately this progress will be reflected in the creation of value for the Company's shareholders.

(iii) Given the dual CEOs and chairs structure, is there significant overlap in the roles and responsibilities of the two executive directors? How does the NC evaluate the individual performance of each director?

Company's response:
There is some overlap in the roles and responsibilities of the dual CEOs, particularly when it comes to strategic planning and decision making, where they complement one another, and the Board believes that the dialectic between them leads to better decisions. Other than strategic planning, the work is largely divided between them. For example, each sits on numerous portfolio company boards of directors, with very little overlap between them. In addition, each is responsible for managing different aspects of the Group's operations.

The performance of the CEOs is primarily evaluated against the targets set by the Board at the beginning of each year.

As also explained on page 66 of the Annual Report, "*the Board, in accordance with the recommendations of the NC, agreed that collective evaluation in lieu of individual evaluation is a more appropriate method of evaluation for the Company, as it provides for more effective and objective input (and whereas individual evaluation can inhibit Board dynamics and group performance). As such, no formal assessment of the contribution by the Chairs and each individual Director to the effectiveness of the Board and Board Committees has been conducted*."

(iv) What is the total shareholder return since the group's IPO in November 2015? Is the board satisfied with the performance of the company?

Company's response:
The Company's share price is approximately 66% below its IPO price, and the Board would have hoped for a better situation. At the same time, it should be noted that the loss in value occurred during the first 3½ years of trading of the Company's shares, where the share declined by as much as 86% from its IPO price to a low of S$ 0.078. (In March 2020, at the height of the initial COVID panic, the Company's share price briefly fell to S$ 0.057, but we discount that as a market anomaly.) Since June 2019, the Company's share price has increased by approximately 40%, significantly outperforming the STI index, which has been flat over the same period. The Board believes that the Company is moving in the right direction.

(v) In addition, is the board, especially the independent directors, satisfied with the rate of value creation and exit of the portfolio companies?

Company's response:
The Board believes that value creation in the portfolio, which is a main measure of Company's progress, has been highly satisfactory and all indications are that it will continue to be so in the future. The Board notes that the Company's two largest, most profitable exits have been in the past two years, while at the same time the last two years have seen increased numbers of our portfolio companies raising larger amounts of capital with higher valuations than in the past. We believe that this is an indication of the increasing maturity of the Company's portfolio, and we believe that in the future we will see additional larger exits.

(vi) How strongly does the remuneration structure incentivise management to create value and achieve exits of the portfolio companies?

Company's response:
The NC and the Board believes that the bonus and options components of management compensation provide a strong incentive for the managers to create value and to achieve exits. At the same time, the Board is cognizant that in order to retain and recruit good and talented investment managers, the Group must incentivise them on a par with the industry.

BY ORDER OF THE BOARD

Haim Brosh
Chief Financial Officer and Joint Company Secretary
11 April 2022

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*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

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