

Acacia Initiates Plan to Improve Arix Governance

March 9, 2020

Urges Arix Board to Engage with Shareholders to address its Director Composition and Investment Team Dysfunction. Proposes a Series of Corporate Governance Improvements to be Implemented Before Reinvesting Proceeds from Prior Investments

Acacia Initiates Plan to Improve Arix Governance

Acacia Research Corporation, a 19.05% shareholder in Arix Bioscience plc (LSE: ARIX), sent a letter to the Arix Senior Independent Director on 9 March 2021.

Acacia is urging the Arix Board to meet with its largest shareholder ahead of the start date of the recently appointed directors, currently scheduled for April 1, in order to allow for proper discourse on the multitude of shareholder concerns. Arix has a disappointing governance history with 18 different directors in just five years, lacks gender diversity on the Board, and received minimal shareholder approval at AGMs. The disruption at the Board level has led to the departure of key investment professionals. Acacia believes these issues must be addressed on an urgent basis due to the recent receipt of proceeds by a team that now lacks adequate investment professionals.

In its letter, Acacia recommends Arix immediately commence a search for a replacement CEO, restructure the Board with individuals who possess the requisite experience and skills, and in particular, a demonstrated record of successful Board service at companies with sound and stable Board functioning, and hire an experienced team of life sciences investment professionals. No decisions should be made on a reinvestment of the VelosBio (or any other) proceeds until such strategy is implemented.

The full text of the letter is as follows:

Giles Kerr, Senior Independent Director
Arix Bioscience plc
20 Berkeley Square
London
W1J 6EQ
United Kingdom

9 March 2021

Dear Giles

Acacia Research Corporation (**Acacia**), through its wholly owned subsidiary Merton Acquisition HoldCo LLC, holds 25,833,311 ordinary shares of 0.001p each in the share capital of Arix Bioscience Plc (**Arix** or **the Company**). Our holding represents 19.05% of the issued ordinary share capital of Arix.

I am writing to you now because you have again deferred our previously scheduled meeting. I had originally contacted you in this regard on 1 March, immediately following the announcement of your appointment as Senior Independent Director. Although we were initially encouraged by this important and long overdue development, it now appears that this optimism was misplaced. It is quite inappropriate for you to expect that we should defer any discussion of our concerns until after meeting with the CEO when the specific purpose of our engagement with you is to address the urgent need to deal with the grave governance challenges in the Company. It is my understanding of corporate governance principles that the senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman or chief executive has failed to resolve or for which such contact is inappropriate, which is the case here. I presume that your terms of reference as SID state the same. I also understand that the responsibilities of the SID should be set out in writing and made publicly available. It would be helpful if you could arrange for a copy of those to be sent to me.

As you know, starting in the summer of last year, we have sought to discuss with this Board the need for a significant reconstitution to bring an end to a cascading series of disruptions that have resulted in 18 different directors sitting on the Board in the last five years. Since that time, the urgency has grown more acute as the governance instability has precipitated the departure of all the key members of the investor team. Shareholders now face the prospect of watching the significant realization proceeds of the previous management's efforts coming into the hands of a what appears to us to be a woefully inadequate investment group. We note the Chairman's statement in today's Annual Results announcement of current management's attempts to backfill this investment team – they have appropriated to themselves the credit for the achievements of the prior investment team but that does not qualify them for the task of selecting a new investment team. We believe that Arix has become a company where the Board's governance has broken down and direct shareholder intervention is required. As Arix's largest shareholder, we were disappointed that we were not consulted over the recent Board changes, especially given our previous outreach. We believe it is incumbent on us to initiate this intervention now.

In this letter, we will propose certain immediate actions that, based on previously publicly expressed shareholder concerns, we expect to be broadly supported by all shareholders. We stand ready to commence a constructive engagement with you to achieve the necessary changes as quickly as possible.

History of governance instability at Arix

Shareholders have repeatedly expressed their concerns about the governance of Arix. For example:

- at the Arix 2019 AGM, the new Directors' Remuneration Policy was only very narrowly passed with a 50.26% majority; and
- at the Arix 2019 AGM, the resolution to approve the 2018 Directors' Remuneration Report was defeated by a majority of 67.59%.

This makes Arix, we understand, something of an outlier in UK governance terms. The Arix 2020 AGM was no better. We note a 28% vote against the 2019 Remuneration Report, on an extremely low percentage of only 29% of shares voting at the 2020 AGM. The Board appears to be indifferent to shareholder views in all respects. Despite the overwhelming view of institutional shareholders that gender diversity is an imperative, even after your two most recent additions, the Board remains all male. For this reason, one of the new directors that we will be proposing is the Chair of our company, Maureen O'Connell who is eminently qualified and has been a strong leader of the turnaround at Acacia under its new Board.

While we are encouraged that you have been named the Senior Independent Director, as a significant shareholder who has previously expressed interest in Board representation, it is disconcerting that we were not alerted to or given the opportunity to express any views on the recent Board changes. This is another example in a long line of decisions ending with shareholder disappointment.

Investment team dysfunction at Arix

The seemingly uncontrollable Board tumult at Arix has regrettably presaged instability in the executive ranks. Since your appointment of the current CEO, the consequences for the management can only be described as devastating. In rapid succession following his appointment, key investment professionals have unexpectedly left the Company, starting with Joe Anderson and Mark Chin in April 2020. Mark Chin led the Arix investment in VelosBio and had joined the Board of VelosBio in October 2018. Jonathan Tobin was promoted to Managing Director on 15 April 2020 only to resign precipitously nine months later. Fortunately, he stayed long enough to manage the VelosBio exit and ensure the receipt of the proceeds before departing. Shareholders are deeply grateful to these investment professionals for their achievements but now face the prospect that the capital that they generated will be handled by an investment team that barely exists. In the two years prior to the arrival of the current CEO, Arix had an investment team of six professionals, the majority of who were Director and Principal level. According to the current website, this beleaguered operation employs 17 individuals today of which only one Principal and two analysts appear to be dedicated to the core investment activities.

These events have transpired since the time that we have asked to meet with you to discuss the governance issues at Arix. Shareholders have every reason to be alarmed. Your reluctance to discuss this matter only further exacerbates our concern. In announcing Arix's interim results on 8 September 2020, you announced your intention to invest our capital on the following basis: "We have a highly seasoned leadership and ambitious team, supported by a high calibre Scientific Advisory Board and Board, and close relationships with pharmaceutical and academic partners. These give us a unique platform and competitive advantage to execute our strategy."

We disagree. To be absolutely clear on this point, as your largest shareholder, we caution the Board against taking any steps to make further investments until a suitably qualified team of experienced investment professionals has been retained to the satisfaction of shareholders.

Our proposals

Starting last summer, we had a series of discussions with the CEO about our interest in resolving the governance challenges at Arix. He reported to us that the Board had concluded that they were better served by not speaking to shareholders as this maintained their “independence.” There can, however, have been no doubt in your mind of our specific interest in discussing the future makeup of the Board and the characteristics of the individuals to be selected for this purpose. On 26 February 2021 the Company announced that it had decided to restructure the Board unilaterally with effect from 1 April, 2021 and another three positions turning over. We are now faced with an impending deadline that requires a response.

We believe that:

- the search for a CEO replacement should commence immediately due to the lack of initiative shown in addressing our previously stated governance concerns, ineffectiveness in defining a coherent operational strategy, and inability to retain key investment team members;
- the change needed in the Company can only be achieved by a strengthened Board with the requisite experience and skills, and in particular, a demonstrated record of successful Board service at companies with sound and stable Board functioning;
- the recurring instability on the Board can only be ended by selecting directors who have the support and endorsement of a broad base of shareholders and the legitimacy that flows therefrom;
- an experienced team of life sciences investment professionals must be hired under new leadership;
- no decisions should be made on a reinvestment of the VelosBio (or any other) proceeds until such strategy is conceived and realised.

Next steps

Previous AGM voting patterns demonstrate that many shareholders support our view. We encourage you to consult with other significant shareholders and solicit their views as a matter of urgency. Indeed, we strongly oppose the notion that a board is “independent” because it is disengaged from shareholders. It is abundantly clear that the only way to stabilise this company is to commence a detailed consultation with shareholders on the specific issue of board composition and to act in response to the views expressed.

We intend to discuss these matters with a broader group of our fellow shareholders now. As the Company's largest shareholder, we believe that it is important for us to lead on these issues at a critical time for the Company when it stands exposed to great risk.

In order to stabilise and strengthen and the Board, we propose that Maureen O'Connell, chair of Acacia, and Isaac Kohlberg, Acacia director, join the Board immediately, together with a third independent director to be mutually agreed between us. Mrs. O'Connell is an highly experienced corporate director with relevant experience in pharmaceutical companies. Mr. Kohlberg is the Senior Associate Provost and Chief Technology Development Officer of Harvard University and a recognised expert on pharmaceutical development.

The quickest way to do this before the 1 April deadline would be for you to meet and commence work with us directly to address strategic options and actions that would best serve the interests of all shareholders. We are however prepared, if necessary, to requisition shareholder resolutions for the consideration of our proposals.

We would like to discuss our proposals for the strengthened Board with you and would propose a (virtual) meeting to start work as soon as possible. Please let me know when you are available to do so.

Yours sincerely,

Clifford Press
CEO

About Acacia:

Acacia Research Corporation (Nasdaq: ACTG) has a primary focus on mature technology, life sciences, industrial and certain financial services segments, and pursues opportunities for value creation that leverage Acacia's significant capital resources as well as its expertise in corporate governance and operational restructuring. For additional information, please visit Acacia's website at <http://www.acaciaresearch.com/>.

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