

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Bailador Technology Investments Limited (BTI)

Listed Managed Investments

June 2016 Quarterly Review

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Rating



LMI Type

Listed investment company

Investment Area

Private equity

Investment Assets

Private companies

Investment Sectors

Information Technology

Key Investment Information

Price (\$) as at 31 August 2016	1.095
Market cap (\$M)	110.4
Shares on issue (M)	100.8
Shares traded (\$M p.a)	19.5
12-month L/H (\$)	0.76/1.30
Listing date	November 2014
Fees:	
Management Fee (%)	1.75
Performance incentives (%)	17.5*

*Performance fee is subject to a 8% compound annual increase in the NAV of the company.

Pre-tax NTA Performance Analytics (including dividends)

	1 Yr	Since Listing (p.a.)
Portfolio Performance. (%)	8.13	11.01

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield

	%
FY14	na
FY15	na
FY16	na

Substantial Shareholders

	%
Washington H Soul Pattinson	19.8
David Kirk via Kirk Family Holdgs	8.3

As at 30 June 2016

COMPANY OVERVIEW

Bailador Technology Investments Limited (ASX: BTI) is a listed investment company that provides exposure to a portfolio of unlisted internet related businesses founded in Australia and New Zealand. The company invests in companies that are in the expansion stage, with a demonstrated revenue and customer base. The company does not invest in start-up companies and biotech companies. BTI listed on the ASX in November 2014 following a capital raising. In March 2016 it raised an additional \$38.4m from the exercise of options, with \$20m of this raised as a result of an option underwriting agreement with Washington H Soul Pattinson. This resulted in Washington H Soul Pattinson emerging with a 19.8% stake in BTI. Bailador Investment Management Pty Ltd is the Investment Manager of the portfolio and is paid an annual management fee of 1.75% and a performance fee of 17.5% of the increase in the net asset value of the company, subject to the net asset value of the company increasing by 8% per annum compound. It is important to note that performance fees will only be paid on the receipt of cash from the exit from investments and not on unrealised gains.

INVESTMENT OBJECTIVE

The company seeks to provide investors exposure to a portfolio of information technology private companies that have a recurring revenue stream, strong business model and are seeking additional capital to expand.

STYLE AND PROCESS

The Investment Manager sources investment prospects through its many formal and informal networks. The Manager particularly favours businesses that have either a subscription or marketplace revenue models. The Manager has some key investment criteria that an investment opportunity will typically meet: 1) Proven technology; 2) Proven management; 3) Proven business model; 4) Repeating revenue; 5) Globally competitive technology; 6) Highly profitable unit economics; 7) Large global addressable market; 8) Rapid growth potential; and 9) Potential to generate a sufficient return on investment.

PORTFOLIO CHARACTERISTICS

The portfolio currently has seven investments, the largest of which is in SiteMinder, which accounts for 26.6% of the portfolio. In May 2016 BTI made a new a new investment of \$4m in Click Loans, an online mortgages and mortgage solutions business and in June it made an additional \$1.4m investment in Stackla, a content marketing platform. With more than \$25m in cash, BTI is well-placed to fund new investment opportunities that it currently sees in the Australian and New Zealand markets and expects to make additional investments in coming months.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

BTI offers investors a unique opportunity of gaining access to a portfolio of private companies in the technology sector with ASX liquidity. BTI is the only LIC on the ASX that offers access to a portfolio of direct investments in private companies. The Investment Manager comprises two highly experienced individuals in the technology and investment industry. The capital structure of investments seeks to provide downside risk protection in addition to the contractual rights negotiated with businesses. The portfolio performed well over the 12 months to 30 June with pre-tax NTA rising 8.1%. This compares favourably to the ASX 300 Information Technology Accumulation Index rise of 3.8% pa over the period. The portfolio uplift has largely resulted from investments from third parties in the underlying investments at appreciating valuations. Over the June quarter the discount to pre-tax NTA narrowed from 13.4% to 3.0%, but has widened again since the end of the quarter. We still think this provides an attractive entry point for potential investors interested in the technology sector with additional capital appreciation on offer in the event the discount narrows or is eradicated. We expect a re-rating of the company to occur in the event the company continues to realise investments at values significantly greater than holding value.

Investment Limitations

- 1) Initial Investment cannot exceed 40% of the portfolio.
- 2) Up to 15% of the portfolio can be listed in publicly listed technology companies and IPO's, excluding any existing investments that have exited via IPO and in which the company has retained an interest.
- 3) Cannot invest in start-up businesses.
- 4) Cannot invest in biotechnology companies.
- 5) The Manager can make follow-up investments in subsequent fund raising rounds of businesses in the portfolio when the investment is deemed to be value creating for shareholders.
- 6) Can invest in a range of securities including but not limited to, convertible preference shares, convertible notes, preference share, ordinary equity, warrants and debt-like instruments.

BOARD OF DIRECTORS

David Kirk	Executive Chairman
Paul Wilson	Executive Director
Andrew Bullock	Independent Director
Sankar Narayan	Independent Director
Heith Mackay-Cruise	Independent Director

OTHER DATA

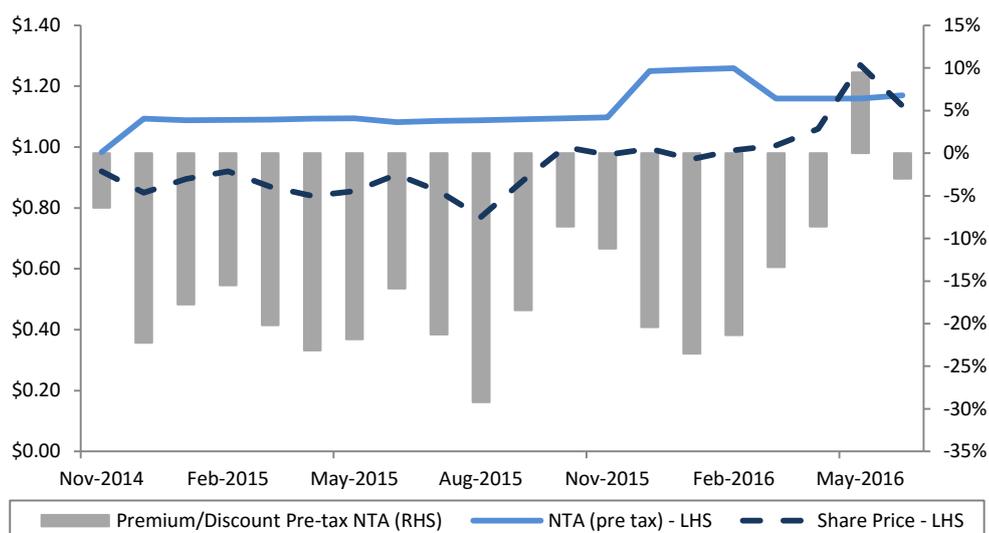
- ◆ **Dividend policy** – Dividends will be paid where possible following the realisation of investments.
- ◆ **Capital management policy** – na.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – No.

BTI's Portfolio Weighting

Company	Current Value (\$m)	Portfolio (%)
Online Ventures Pty Ltd t/as SiteMinder	31.3	26.6
Viocorp International Pty Ltd	28.5	24.2
Standard Media Index Pty Ltd (SMI)	5.5	4.7
iPRO Solutions Pty Ltd	8.5	7.2
Straker Translations Limited	4.6	3.9
Stackla	7.4	6.3
Rezdy	2.7	2.3
Click Loans	4.0	3.4
Cash & Other	25.3	21.4

Source all figures: BTI/Independent Investment Research/IRESS.
All data as at 30 June 2016 unless otherwise specified.

NTA & Share Price Performance



Note: NTA per share decreased in March 2016 due to the exercise of options, causing additional shares to be issued.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

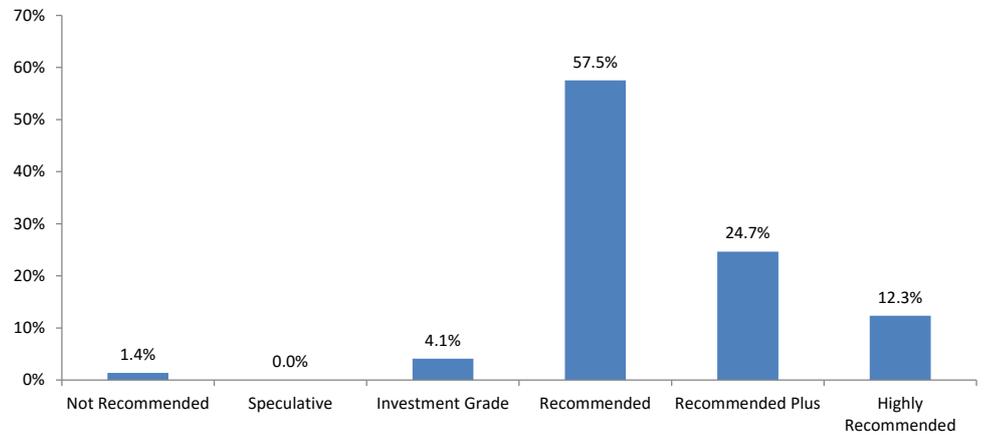
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>60–78</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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