

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Bailador Technology Investments Limited (BTI)

Listed Managed Investments

March 2017 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 May 2017	0.84
Market cap (\$M)	101.0
Shares on issue (M)	120.2
Options on issue (M)	0.0
Shares traded (\$M p.a)	21.5
12-month L/H (\$)	0.82/1.26
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.

Premium/Discount to Pre-tax NTA

31 March 2017	-15.1%
Average since listing	-13.7%

Dividend Yield

	%
FY14	na
FY15	na
FY16	na

Largest Shareholders

	%
Washington H Soul Pattinson	16.6
David Kirk via Kirk Family Holdgs	7.7

As at 31 March 2017

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. 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 10 investments, the largest of which is in SiteMinder, which accounts for 29% of the portfolio. Over the March quarter BTI has made a number of follow-on investments including: \$1.0m in Rezdy, an online channel manager and booking software platform for the tours, activities and attractions sector; \$1.5m in ipro Solutions, a cloud based SaaS platform for corporate and government enterprises to manage vendor compliance risk; \$1.0m in SMI, a big data aggregation and analysis platform for the media and advertising industry; and the purchase of \$0.5m in shares in Instaclustr from an early investor in that business. With \$16.9m cash, BTI remains well-placed to make additional investments as well as portfolio follow on investments.

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 (pre-tax NTA per share) delivered a flat return for the 12 months to 31 March 2017 with pre-tax NTA per share unchanged at \$1.16. Since listing in November 2014 the portfolio (as measured by pre-tax NTA per share) has delivered a return of 7.3% p.a. This is lower than the underlying portfolio returns (which BTI calculates as an annualised internal rate of return of 14.3% after all fees to December 2016) due to the dilutive impact of options exercised in March 2016. At the end of March 2017 BTI shares were trading at a 15.1% discount to pre-tax NTA. This provides an attractive entry point for potential investors interested in the technology sector with potential capital appreciation on offer from revaluation of underlying investments and a narrowing of the share price discount.

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

PERFORMANCE ANALYTICS

Performance	March Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends	-1.7%	0.0%	na	na
Share Price + Dividends	-7.5%	2.0%	na	na

OTHER DATA

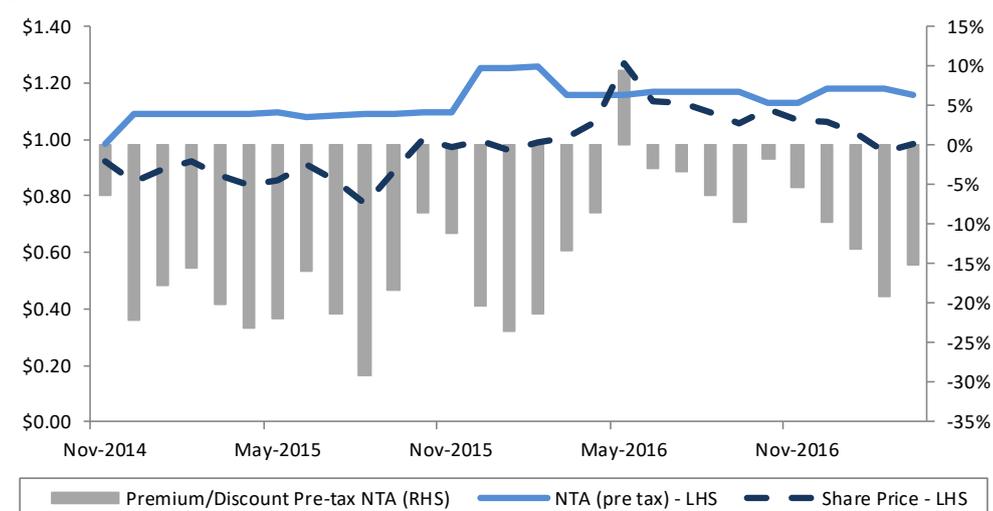
- ◆ **Dividend policy** – Dividends will be paid where possible following the realisation of investments.
- ◆ **Capital management policy** – na
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – No

BTI's Portfolio Weighting

Company	Current Value (\$m)	Portfolio (%)
SiteMinder	40.5	29.0
Viocorp International Pty Ltd	28.9	20.7
Standard Media Index Pty Ltd (SMI)	7.4	5.3
iPRO Solutions Pty Ltd	8.5	6.1
Straker Translations Limited	8.7	6.2
Stackla	11.1	7.9
Rezdy	4.5	3.3
Click Loans	4.0	2.9
DocsCorp	5.0	3.6
Instaclustr	4.5	3.2
Cash & Other	16.6	11.9

Source all figures: BTI/Independent Investment Research/IRESS.
All data as at 31 March 2017 unless otherwise specified.

NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

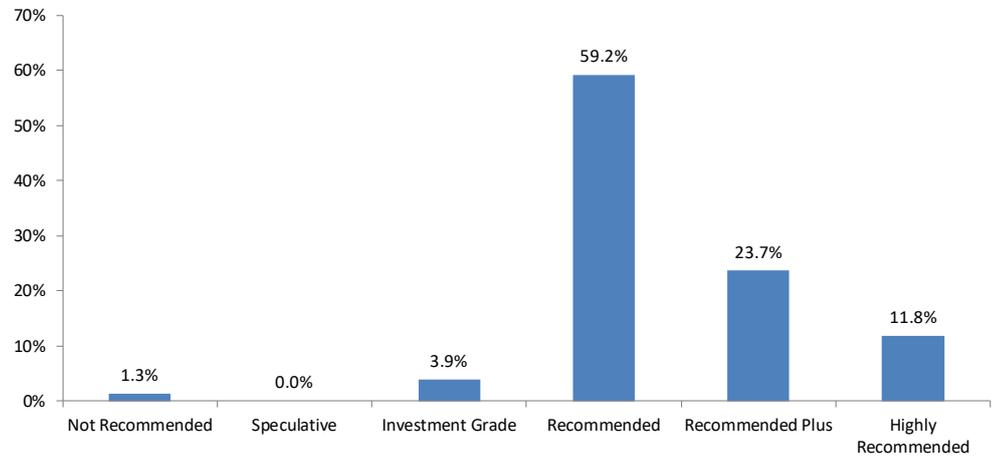
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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