

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Bailador Technology Investments Limited (BTI)

Listed Managed Investments

September 2018 Quarterly Review

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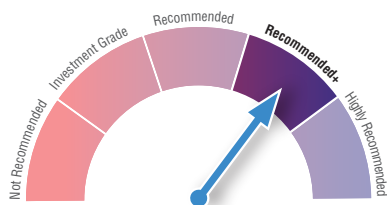
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Rating



LMI Type

Listed investment company

Investment Area

Private equity

Investment Assets

Private companies

Investment Sectors

Information Technology

Key Investment Information

Price (\$) as at 28 November 2018	0.75
Market cap (\$M)	90.2
Shares on issue (M)	120.2
Options on issue (M)	0.0
Shares traded (\$M p.a)	11.1
12-month L/H (\$)	0.74/0.98
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

As at 30 September 2018	-22.4%
Average since listing	-16.3%

Dividend Yield

	%
FY16	na
FY17	na
FY18	na

Largest Shareholders

	%
Washington H Soul Pattinson	19.1
David Kirk via Kirk Family Holdings	7.0

As at 30 September 2018

COMPANY OVERVIEW

Bailador Technology Investments Limited (ASX: BTI) is a listed investment company providing exposure to a portfolio of unlisted internet related businesses founded in Australia and New Zealand. It invests in companies in the expansion stage, with a demonstrated revenue and customer base. Bailador Investment Management Pty Ltd is the Investment Manager.

INVESTMENT OBJECTIVE

BTI aims to provide investors with exposure to a portfolio of private information technology companies with recurring revenue, strong business model and are seeking expansion capital.

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 is concentrated with 10 investments. The largest holding is in SiteMinder, which makes up 41% of the portfolio. The heavy weighting is on the back of a significant increase in the value of the investment with the investment accounting for only 15.7% of the capital invested. Seven of the ten investments have been revalued upwards, primarily as a result of third party transactions, two remain at the same value as the investment value and one investment has been written down as a result of slower growth and a reduction in the multiple applied.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

BTI offers investors a unique opportunity to gain exposure to direct investment in a portfolio of private technology companies with ASX liquidity. The Investment Manager comprises a team of six professionals with technology, business and investing experience led by three highly experienced individuals in the technology and investment industry. During the September quarter, the valuation for Instaclustr was lifted 57% following a \$15m investment by a US based Private Equity company. The valuation uplift for Instaclustr represents a 225% increase on the invested capital in the business.

A milestone was reached for BTI during and post the September quarter, with Straker Translations Limited listing on the ASX (ASX:STG) on 19 October. STG raised \$21.2m through the issue of 14.1m shares at \$1.51 per share. BTI sold 10% of its interest for gross proceeds of \$1.2m at the IPO and has retained the remaining 90% of its holdings. BTI is the largest shareholder in the company, with 7.4m shares (14.1% of shares on issue). 22% of BTI's shares will be held in escrow until the FY19 results announcement and the remaining 78% of shares will be held in escrow until the 1H20 results are announced. The valuation of STG was increased as a result of the uplift in value through the IPO with the valuation of BTI's holdings representing a 65% increase from the invested capital. The listing of STG was a significant positive event for BTI and this was reflected in the share price, which increased 21.6% over the September quarter, far outperforming the uplift in the pre-tax NTA of 4.5%. Post the quarter end, the share price has depreciated despite there being no movement in the pre-tax NTA. As at 28 November 2018, the company was trading at a 35.3% discount to pre-tax NTA. We attribute the sell off largely due to the sell off in technology stocks more broadly. We view discounts such as these to provide attractive entry points for prospective investors.

During the quarter, the company announced the appointment of Jolanta Masojada to the Board. Ms. Masojada is currently Principal of MasMedia Advisers with over 25 years experience in financial markets and equity research in the media and technology sectors in Australia and the US. Ms. Masojada replaces Heith Mackay-Cruise, who retired from the Board effective 18 September 2018.

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 (resigned 18 September)
Jolenta Masojada	Independent Director

PERFORMANCE ANALYTICS

Performance	Sep Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	4.5	9.4	2.1	na
Share Price + Dividends (%)	21.6	8.4	0.4	na

OTHER DATA

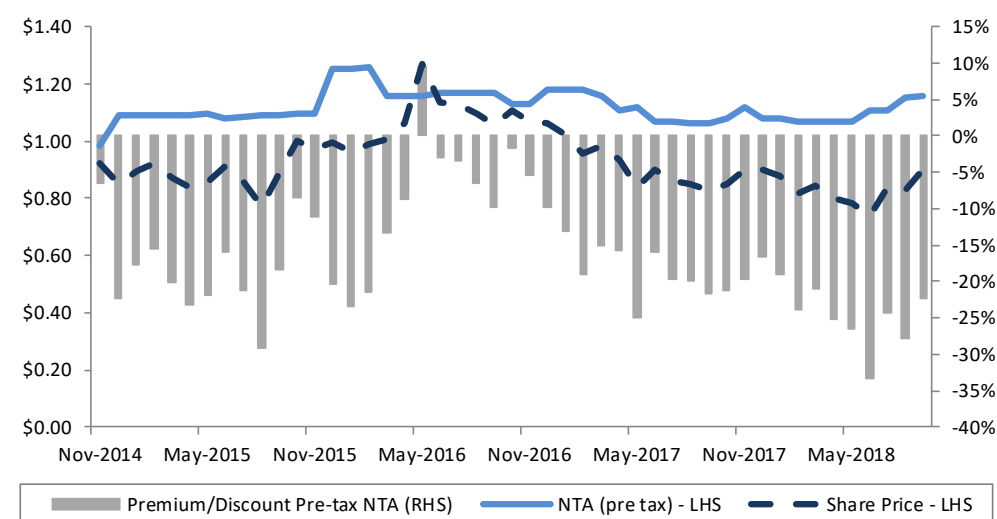
- ◆ **Dividend policy** – Dividends will be paid where possible following the realisation of investments.
- ◆ **Capital management policy** – na
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – No

BTI's Portfolio Weighting

Company	Value Invested (\$m)	Current Value (\$m)	Gain/Loss (%)
SiteMinder	13.8	55.9	305%
Viostream	26.4	7.4	-72%
Standard Media Index Pty Ltd (SMI)	7.4	7.4	0%
Straker Translations Limited	7.5	12.4	65%
Stackla	11.2	12.6	13%
Rezdy	3.6	4.5	25%
Lendi	5.5	9.5	73%
DocsCorp	5.0	9.2	83%
Instaclustr	4.5	14.6	225%
Brosa	3.0	3.0	0.0%
Total Value of Investments	87.9	136.5	55%
Cash & Other	2.8		

Source all figures: BTI/Independent Investment Research/IRESS.
All data as at 30 September 2018 unless otherwise specified.

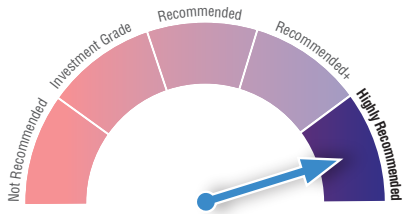
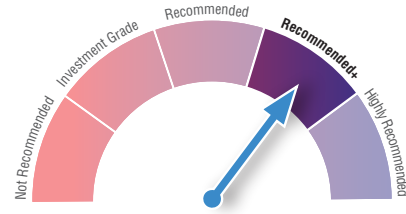
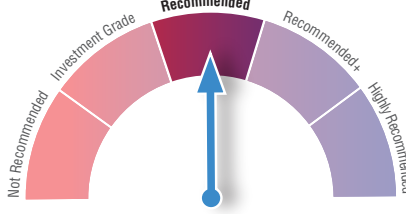
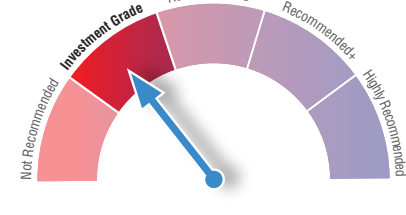
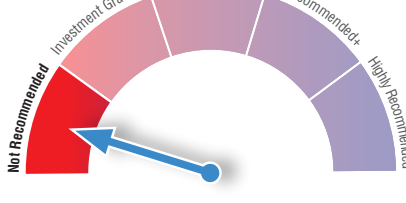
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

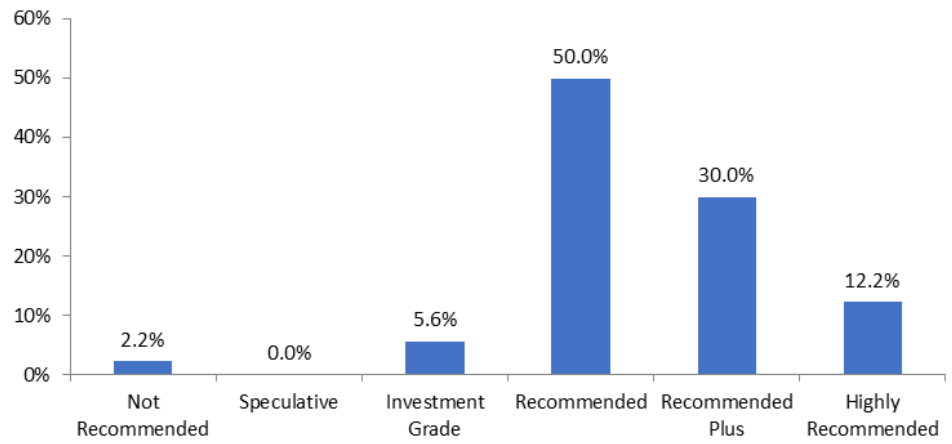
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; 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>79–83</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>70–79</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>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate 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 that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</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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