Venn Brown
Investment Research & Advisory

One to Watch

Bailador

Meeting with Managing Partner Paul Wilson

29th November 2023

Venn Brown sat down with Paul Wilson, co-founder and Managing Partner of Bailador, to discuss Bailador's investment strategy, what they look for in a business, the group's capital management strategy, current market opportunities and portfolio performance.

Company background: Bailador is a listed investment company that invests purely in information technology companies looking for expansion capital. The constantly changing nature of the IT sector offers opportunities for outsized returns, while the expansion, hyper-growth stage presents an attractive risk reward balance to achieve the best returns.

Focus on quality: The fund focuses on technology companies that have proven market fit, strong management teams, a huge addressable market, strong unit economics and an enthusiastic and dedicated customer base.

Capital management: Bailador has a stated dividend policy of distributing 4%pa of the group's net tangible assets. This policy was designed by provide the balance between maximising long term capital growth achieved through the out performance of the investment portfolio, while rewarding investors with a steady and attractive, fully franked income stream.

History of outperforming NTA: With the share price currently trading well below net tangible assets ($1.55 per share[1]), the market doesn't credit Bailador for consistently realising assets at valuations above NTA.

Outlook: The recent retraction of the tech sector and the hesitancy of investors in both the private and listed markets is presenting Bailador with a growing number of attractive investment opportunities. With more than $100 million of cash on balance sheet, Bailador is well positioned to capitalise emerging opportunities as other investors remain cautiously on the sidelines.

Bailador

ASX:BTI

Sector	Investment Services
Date	29-Nov-23
Share price	$1.19
52-week range	$1.07 / $1.36
Market cap	$176.3m
Free float	64.6%
Dividend	$0.07
Yield	5.5%

Year-end 30 June	FY20	FY21	FY22	FY23
Revenue	-$1.6m	$52.0m	$70.7m	$13.1m
EBITDA	-$5.9m	$39.4m	$48.6m	$8.3m
EBIT	-$5.9m	$39.4m	$48.6m	$8.3m
Net profit	-$4.1m	$27.6m	$34.0m	$5.4m
Earnings per share	-$0.03	$0.22	$0.24	$0.04
Operating cash flow	-$8.4m	-$4.4m	-$13.2m	-$43.9m
Free cash flow	$3.4m	$15.5m	$102m	-$75.9m
Cash & equiv	$10.2m	$61.3m	$212m	$113m
Net debt	-$10.2m	-$61.3m	-$212m	-$113m
Net debt / EBITDA	1.7	-1.6	-4.4	-13.6
Dividend per share	$0.025	-	$0.014	$0.109
ROA	-3.4%	19.3%	18.9%	3.3%
ROE	-2.9%	14.4%	15.1%	2.5%

3-year Price Chart

Analysts

Andrew Wilkinson awilkinson@vennbrown.com

[1] Post tax NTA reported for 31st October 2023

Thanks for being with us here today Paul. To start with, can you give us a brief overview of Bailador?

Bailador is an expansion capital fund focused exclusively on the information technology sector. We chose information technology because it's an area that's constantly changing, growing, and creating opportunities for outsized returns. We chose the expansion stage because we feel that it's the right risk reward balance to get the best returns at the start.

In the true startup or early stage, you are going to have more failures than successes by some margin and so the whole risk profile is quite different. Mature companies, such as large listed companies can offer nice returns, but it's less common to get really big winners and the multiple of money that you can get at the expansion stage. There's a number of reasons for that. At the expansion stage, you can still be going through hypergrowth. It's not unusual at all to be growing 60, 70, 80, a hundred percent plus per annum and you can often enter these companies at more attractive valuations when they're private and smaller than when you get them on a public market or at IPO. And so it's a combination of those factors.

Figure 1: Bailador gives investors exposure to growth stage tech companies, with liquidity & dividends that come with a listed company

Source: Bailador

What is your preferred entry size and investment amount?

In terms of our cheque size, our sweet spot is between $5 to $20 million. The fund at the moment has net assets of about $250 million and so we want to make sure that the investment that we're making is material enough to warrant us spending our time on the business because one of the things we do is at the invitation of the investee companies, we go on the board, we bring an experienced team and we help them grow that business.

We like to invest in businesses that have at least $5 million of recurring revenue. That's not a hard and fast rule, but really what it's indicating is a proven product market fit, business model and management team and $5 million recurring revenue is a good proxy for that.

What are the characteristics you're looking for in potential investments?

There are five main characteristics we look at for every investment:

1. **Product market fit:** We want evidence of very strong customer engagement. This means low churn, high rates of product/service upgrades and high customer referral rates.
2. **Management team:** We're looking for practical intelligent management teams that we think we can work with. We typically invest for 3-5 years but it can be a lot longer than that. We work pretty extensively with management teams on business plans and making sure we're aligned on our thoughts on where to take the business before we cut our first cheque. We'll often make follow on investments so we need to know they're a team that we can work with.
3. **Addressable market:** Huge target addressable market, usually global.
4. **Unit economics:** Strong and scalable unit economics.
5. **Competitive environment:** This is critical. We spend a lot of time talking with existing customers, prospective customers and potential customers, including those who went with someone else. We place a lot of weight on that feedback.

When we're looking at the management team, we're not just looking at the founder. There's a lot of focus on founders and founders are important, but one of the key characteristics of a founder is their ability to build a quality team around them. We like to see that the business has grown large enough that there are salespeople able to sell the product. There are other people able to onboard and answer customer queries and it's not just a focused on one person or a couple of people and their connections and their expertise. Those people need to be able to pilot the ship, but a lot of the day-to-day running needs to be from other people, and you need to show that it can scale efficiently, preferably not just in Australia but internationally.

What stage in the business's life cycle do you look to invest?

As I mentioned our sweet spot is investments of $5-20million so that impacts when we invest, but what's key for us is to know that the technology has been de-risked that there are dozens, preferably hundreds or thousands of users using the product as it's intended to be continued to be sold. We like to see that there's lots of repeat users. We very much favour a subscription business model. About 80% of our portfolio has subscription business models which give you predictability. You can track a lot of metrics, you can see if the unit economics are working which is why a lot of what we do is software as a service.

Using that as an example: You build a software platform, you can sell that a thousand times or 10,000 times and the platform itself doesn't necessarily cost any more. There'll be additional cost for sales and marketing and so you track how much it costs you to get a customer, what margin you're getting and you can see very quickly how fast you're being paid back, what's the lifetime value of that customer based on churn trends, how does that lifetime value compare to what it costs you to add? As a rule of thumb, we want to see our companies making at least five times their money on what it costs to add a customer.

I'll give you an example. Before we invested in SiteMinder[3] it had revenue of about $5 million. It already had about 3,000 customers, a high-quality management team and had started selling internationally. It was producing nice numbers, it was already cashflow positive, but growing at about 25% per annum because they were being careful with their cash. It really fit the criteria I've described. The clincher for us (besides some great meetings with the founding team), was the 22 meetings and calls we did with existing customers as well as calls with hotels that weren't using the product. 22 out of 22 just were glowing advocates. This was a random selection of customers, not ones we'd been fed to call.

Figure 2: Bailador targets growing companies in massively addressable markets

Investment	Portfolio weighting[1]	Sector	Sector growth
SiteMinder		Travel / Accom.	↗
rezdy		Travel / Experiences	↗
access telehealth		Digital Healthcare	↗
rosterfy		Volunteer Management	↗
nosto		E-commerce	↗
MOSH		Digital Healthcare	↗
straker TRANSLATIONS		Language Translation	↗

Source: Bailador

SiteMinder has gone on to have nearly 40,000 customers in over 100 countries, all paying a lot more per month than they used to. They're now listed on the ASX [ASX:SDR] with a market cap of $1.3 billion. I'm still on the board. I chaired that business for six years and we were quite instrumental in helping them list on the ASX.

In terms of business models, do you prefer companies that operate in business-to-business, business-to-consumer, or business-to-government markets?

Historically we've preferred B2B. A lot of our portfolio companies (past and present) aren't household names. They've been providing the plumbing that's been connecting industry segments and we find that B2B opportunities have a higher degree of predictability for lower marketing spend.

If you're B2C, there's inevitably going to be some marketing spend. When you're small you can get great returns on marketing spend and achieve rapid growth by doing some really clever things on Google and other platforms. But once you get to a certain scale, B2C requires invest in brand collateral and brand recognition.

It's not to say we won't invest in B2C businesses. InstantScripts is the most recent business that we sold. It was very much B2C with over 600,000 Australian customers generating well over 1 million transactions. It was a very successful company and continues to be now that we've sold that to Wesfarmers[2]. So we're happy to do both, but we have more of a track record in the B2B space.

[2] In June 2023 Wesfarmers announced an agreement to buy InstantScripts for $135 million.

Given the investment size and the size of the business, what percentage do you generally like to own?

We're not percentage driven. It usually ends up being between 10-40%, but the way we arrive at that 1) form a view on the business's valuation; and 2) work with management to determine their capital needs. The percentage ownership is simply the result of the capital needs and valuation.

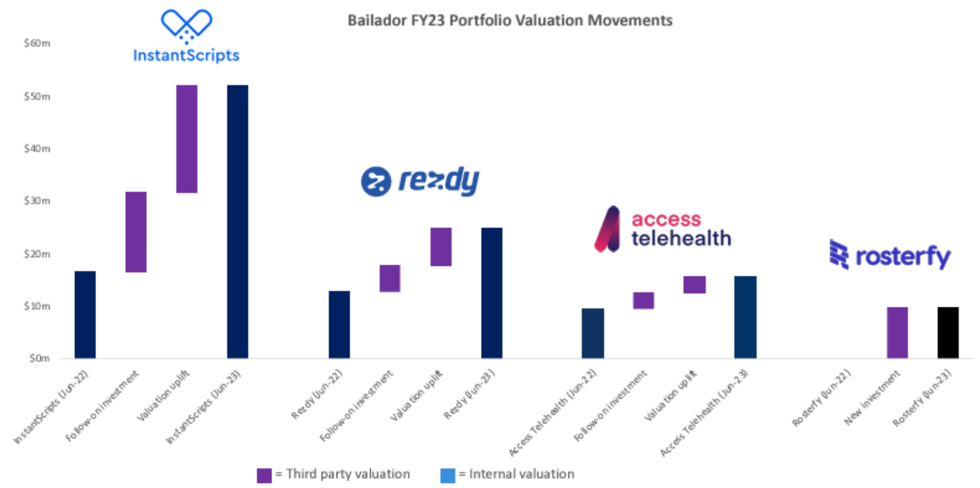
Do you prefer to invest alone or with other parties?

We're very open to investing with others. Most of the time we're the lead investor but other investors usually come in over time. Most companies that come to us have bootstrapped, sometimes with investment from friends and family. They might have some angel funding, but usually Bailador is the first institutional investor.

We then work with the management team to build the register they want and we're happy coordinating and bringing in Silicon Valley investors, as we did for SiteMinder[3]. In the early days we brought on TCV[4] who ended up investing $50 million. They were a great partner. They've since sold out (making a really nice return) while we continued on.

We have the ability to invest very long term. We like having partners that bring expertise in a particular industry segment. It doesn't have to be that way, but it tends to run a lot more smoothly when you have that.

Figure 3: In FY23 Bailador reported an average 31% valuation uplift from third party transactions



Source: Bailador

[3] SiteMinder is the world's largest open hotel commerce platform, ranked among technology pioneers for opening up every hotel's access to online commerce. Tens of thousands of hotels, across 150 countries, to sell, market, manage and grow their business through SiteMinder. In the 12 months before the pandemic, SiteMinder generated more than 100 million reservations for its customers, worth over US$35 billion.

[4] TCV is a US based technology focused investment company. Since 1995 TCV has raised more than US$21 billion across twelve funds, completed 79 IPOs and 71 acquisition exits.

Do companies you invest in need to be profitable or cashflow positive?

Most of the companies that we invest in are tracking around cashflow breakeven at the time of investment, but it's not a prerequisite. If their unit economics are strong enough, it's okay for them to be burning some cash. Several companies have also been profitable at the time they came to us, but if they are profitable at that scale, it usually means they're not reinvesting enough to fully take advantage of their growth opportunity because as I touched on businesses at this stage, growing at 20 or 30% is not really indicative of a company that's going to grab that market leadership position.

We're looking for businesses that are growing well over 50% a year, and usually that requires balancing ongoing investment with profitability. The investment might be used to:

1. grow your management team with A grade people;
2. double down because the metrics are so good and you need it to achieve 200% plus growth rates (which we've done a few times over the past few years); or
3. expand internationally.

A lot of the companies we invest in are not just local champions, it's nearly a prerequisite to show that they can compete on the world stage and address a global market. It's one of our key investment criteria that the companies we invest in have a huge target addressable market. It means that they can grow very quickly and get very big which means our exit valuations are considerably higher.

When you're buying into companies, are you buying out existing investors or injecting new capital?

We're often doing both. In the current market we're seeing opportunities where they side by side. It may be that a business has had some money from a family office that's decided the space isn't for them and so they're looking for liquidity. At the same time the company might be looking for $5 million in capital. If we can write a $10 million check and solve both problems, clean up the register and have everyone set and pulling in the right direction together, then that's a big win.

What is your preferred hold period?

We say three to five years. That's a rough guide. It's really going to be determined by the progress of the business, the confidence we have in the opportunities that remain ahead of it at any point in time versus the valuation we think we could achieve on realising that business.

We examine that equation constantly, many times a year and certainly at our formal reviews, which we also conduct internally a couple of times a year and dig deep on all of the companies. It's a constant balance. Everything is technically always up for sale, but we invest in businesses with the idea that we can hold for the long term and ride out bumps and downturns if need be.

In terms of finding new opportunities, is it mostly people coming to you or you searching the market?

It's a real combination these days. A lot of it is people coming to us because of where we're positioned in the ecosystem at the expansion stage. As businesses are started and they're going through those revenue hurdles of one, two and three million, there's a pretty good chance that they will become aware of Bailador through their peers, the ecosystem, or through the investments that we've made and we encourage that.

We get to know a lot of businesses quite early in their journey. We pride ourselves on wherever possible helping those businesses through introductions or feedback along the way so that when they do come into the zone and the stage of development where they're ready for expansion capital, it's a much easier conversation because you've gotten to know each other over time and we've watched them perform and see if they do what they say they're going to do or if they can't, how did they react and pivot. It also gives us an opportunity to reference those teams from different vantage points that you might not have been able to do in a shorter period of time.

We're looking for Australian or New Zealand born businesses or those that at least have an Australia / New Zealand focus. This gives us the ability to have superior connections during due diligence and then be close enough to help that business grow over time. Some of our companies have gone on to be headquartered in New York or San Francisco. I think the portfolio currently has offices in 21 cities around the world. So it's certainly not a purely local focus. I believe something like 65% of the revenue of our portfolio currently comes from outside of Australia, but they all began their journey here.

And coming back to your original question, so we source through people getting to know us as they grow on their journey, we have incredibly strong network of individuals who've become shareholders either from the beginning or over time, and so they'll feed in opportunities to us. David Kirk[5] and I both have decades long track records of doing business in Australia and overseas, and so that brings with it a network to give us leads. And then we have a team who themselves have quite strong track records these days. And then amongst that team, they'll be attending a lot of the conferences and events. They'll be doing some desktop and top-down research looking for stars that are emerging. We'll work with AWS[6] and others to see if we can look at some data that's indicating success for some of these companies.

And finally, we're increasingly getting deal leads from management teams of companies we've backed previously. The founding and senior management teams or others from within those companies are contacting us directly with their next opportunity or they're referring us to people that they know because of the experience they've had. And we love that because you've already got that track record of trust and knowledge, and so it's the next stage of development of the Australian ecosystem.

Looking to your capital management strategy, you're a growth stage investment firm that invests for the long term. This means you have lumpy and irregular capital requirements, but you also pay dividends, which obviously you want to maintain. How do approach your capital management policy?

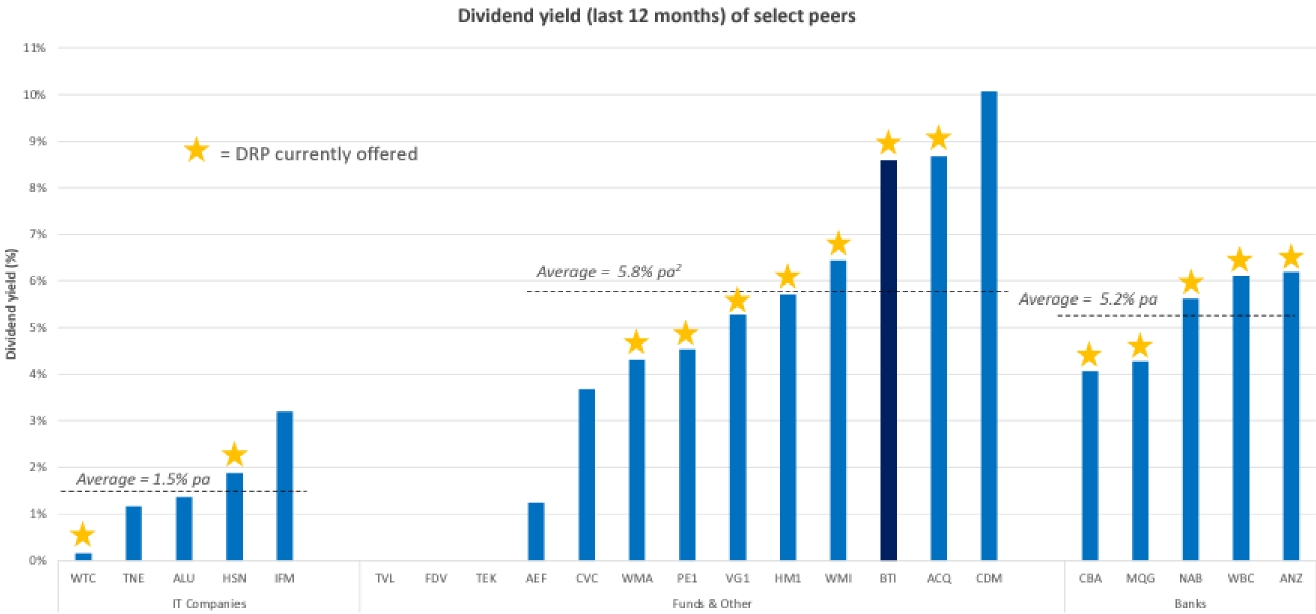
We have a stated policy of paying franked dividends equivalent to 4% of our net tangible assets per annum. We split that so that it's paid semi-annually, effectively 2% each six months, and that's intended to be a policy that remains in place indefinitely. We currently have significant cash reserves of over a hundred million dollars. At the current payout rate, we've got over six years of franking credits, so if anything, we may decide to ratchet up that

[5] David Kirk co-founded Bailador with Paul and is currently the Executive Chairman & Managing Partner

[6] Amazon Web Services

dividend amount. To be clear, that's not a promise. The capital management policy is ultimately determined by the board.

Figure 4: Despite being focused on capital returns, Bailador pays a competitive dividend



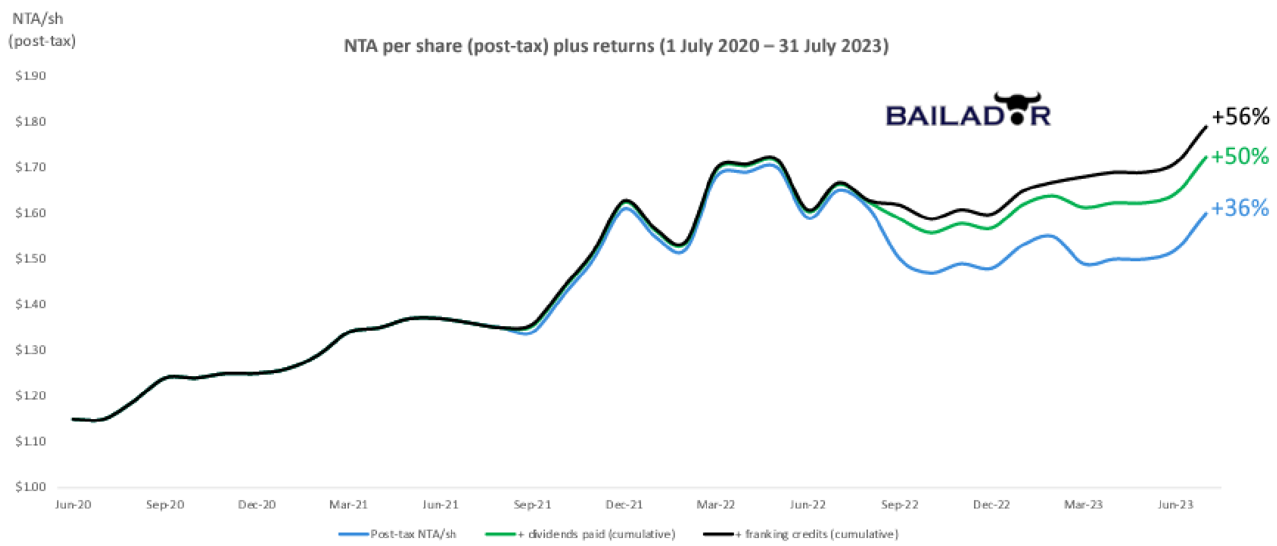
Source: Bailador

Ultimately the decision rests with the majority independent directors. And the reason I say that it may well ratchet up is we've clearly got the capacity to do so based on current capital structure and franking credits. Also, the policy of 4% of NTA was set at a time when interest rates were significantly lower, and so it was designed to produce a yield, certainly a grossed-up yield for investors well ahead of what they could get in cash or at the time in bonds. That gap has narrowed and so we'll continue to review the policy, but we very intentionally put it in place because we found that our company is often very attractive to self-managed super funds in particular, and many of whom can take advantage of franking credits and like to have franking credits. We wanted to give them that ongoing cash yield and effective tax credit stream whilst giving them the exposure to the main engine of returns, which is the capital growth in the portfolio.

We are not structured like a typical 10-year closed end fund where the money goes in and is locked away until it all comes out. When we sell a company like InstantScripts that $52 million in cash comes back onto our balance sheet. We're a listed company and we can take that cash and reinvest it, but we can also take some of that cash and put it towards paying out those dividends.

We continue to watch the balance sheet to make sure we maintain a prudent level of cash. We are probably a bit heavy on cash at the moment than we'd ideally like to be, but our view is that we're better off having discipline and making the right long-term investment moves than rushing the cash back out the door. We look at the cash we have, the opportunities in front of us and the opportunities for portfolio realisations and manage our capital that way.

Figure 5: Bailador's returns have been boosted by fully-franked dividends



Source: Bailador

You also use special dividends to distribute cash don’t you?

Yes, we paid a special dividend when we sold InstantScripts. I think we realised well over a hundred million dollars on our original $8.5 million investment. We paid a special dividend but the sale also crystallised our ongoing dividend policy and gave us the confidence to say, we're mature enough now, we've got enough companies in the portfolio with enough tenure that we should be making two or three new investments a year and two or three realisations and that will enable us to continue to pay this ongoing dividend.

We also have a dividend reinvestment plan (which has a strong uptake from investors) that operates at a 2.5% discount to the prevailing market price.

Can you talk about the current market because globally, there's quite a disconnect between the private and the public markets? A lot of companies are looking for money, so no doubt you have a lot of options. Are there good opportunities out there?

Yeah, it's a good observation. A lot of it comes down to timing. So when public markets went a bit crazy on tech valuations, private markets did too, and you can debate which one led the other. But the public markets then came off dramatically in their valuations and in fact dipped below long run averages on most valuation measures.

Figure 6: Average technology multiples are 28% below their 5 year average[7]

Source: Bailador

The private companies by and large did not do that straight away. And the time lag was significant. Some would argue there's still elements of it going on. And so you're looking at a time lag of well over a year for private companies to catch up. That happens for a number of reasons. One, private companies aren't being revalued every day based on trading, and so they might just continue to keep their old valuation until there's a new valuation event, be it a capital raise or a share trade.

But there's another reason, which is a little bit more sinister, which is existing investors following on at valuations that they know are pretty high in order to maintain those valuations. And we've seen a fair bit of that as well as something that's been pretty rare in the market up until the last couple of years. It's equity instruments that don't price until a future event, mostly called safe notes in the local market, and they just kick the can down the road and say, well, we can't agree on a valuation that works for us all today, so we're going to say that it gets valued on the next capital raise event or where we're up to in 18 months' time. So that sort of delays a resetting of the pricing. In most cases this happens with companies that have already taken on institutional venture capital money but eventually there's a come to Jesus moment and the business either has to have its valuation reset or grow into its valuation. Not all of them will reset. Some may just take longer to reach the inflated valuation because a lot of things got priced for perfection.

You now also have newer companies coming through the system that are raising institutional VC money for the first time. They don't have the baggage of previous valuations to live up to, which helps reset the market to more realistic levels.

As for the pipeline, it's very strong. One of the outcomes of having a period of high valuations and the notion of lots of people making lots of money out of tech is that it encourages a number of people to have a go and perhaps some really high-quality people that otherwise might've gone into various aspects of corporate careers.

[7] Average EV/LTM Revenue multiple of NASDAQ-listed technology companies, Bessemer NASDAQ Cloud Index (EV/LTM Revenue multiple); https://cloudindex.bvp.com/.
EV = Enterprise Value, LTM = Last Twelve Months

And so we are seeing the fruits of that beginning to come through. People that were encouraged to start businesses, have been building them, are getting traction, and are now at that expansion capital stage.

Australian businesses have learned to think globally, which wasn't always the case. It wasn't always the smartest idea to then try and sell into overseas markets or set up operations in overseas markets. But that's not the case with software in particular. A lot of information technology offerings, you can sell into international markets without having to spend a lot on infrastructure. We're seeing a lot of businesses born global and going global quite quickly, which comes back to one of my earlier points, that they can grow to be very large businesses. We're seeing more business like that, certainly more today than when we began Bailador in 2010.

What are the internal KPIs that you guys use to judge your performance?

Well, the investment return metrics that we primarily use are IRR[8] and multiple of money invested. Those are really the headline scorecards for our investment performance. We also will look at shareholder returns, which are just tracking share price performance for Bailador and taking into account dividends paid.

They're different metrics but they should track fairly closely together, but sometimes our share price will run ahead of net assets and sometimes it'll lag behind and sometimes it will lag behind by material amounts before it catches up again. And so that's the reason for differences. But we're very conscious that the share price gains and dividends are the actual returns our shareholders are getting.

Figure 7: Bailador's portfolio performance has not been reflected in its share price

Annual returns to 31-Oct-23	1-Year	2-Years	3-Years
Portfolio Return post-tax (%pa)[1]	10.2%	9.5%	11.6%
Shareholder Return (%pa)[2]	-3.9%	-16.8%	9.9%
Performance vs Benchmark			
S&P ASX All Tech Index [ASX:XTX]	10.3%	-14.7%	-3.2%
Shareholder Return vs Benchmark	-14.2%	-2.1%	+13.1%

[1] Portfolio return post-tax calculated as the compound annual growth in NTA per share (post-tax) plus dividends paid.
[2] Shareholder return calculated as the compound annual growth in BTI share price plus dividends paid
Source: Bailador

Can you talk about the times where you've had to reduce the valuation of your investments?

Unfortunately, we have had to do that at times. We try to make sure that we do it as soon as we have concerns. I'll give you an example of where that happened. One of our portfolio companies, Stackla[9], was an operating a business that was selling software licences to corporates, including some very prominent names like Toyota, National Australia Bank and Apple. They were providing access to user generated content on Facebook, Instagram, LinkedIn, Twitter and all sorts of platforms. Over time Instagram became far and away the

[8] Internal Rate of Return

[9] Stackla was a social marketing platform that aggregated User Generated Content (UGC), and became a critical part of customer's digital marketing processes. In June 2021, Stackla merged with Nosto.

most important platform and the business was tracking really well with great unit economics, and a huge target addressable market. They moved their headquarters to San Francisco and had very strong US revenue base, European revenue base, and we were starting to look at whether it was appropriate for them to list on the stock exchange. As the company's reliance on Instagram grew, so did the emergence of a risk that hadn't been there when we initially invested. The business became reliant on Facebook as the owner of Facebook and Instagram, and then Facebook went through a period where there were issues about who had access to what data and how it was being used.

Figure 8: Bailador has had 12 full or partial cash realisations delivering an IRR of 23%

Source: Bailador

Under that guise and without notice, Facebook blocked Stackla's access to all Facebook and Instagram data, along with a number of other businesses. Normal services did resume after about six weeks, but there was a lot of damage done both materially and reputational. And we wrote Stackla down to zero as soon as they lost access to the Facebook platform.

I was chair of Stackla at the time. I worked with the management team to stabilise the business, and we subsequently sold that business for shares in a larger company called Nosto that operates out of Helsinki and New York. And we have a position in Nosto to this day, they were better capitalised, they were larger, profitable and growing strongly. We're very happy with our Nosto position. And so after a period, we wrote our investment value back up to the Nosto valuation. But when we thought there was risk, we wrote it to zero.

How do you weigh the decision to write down a company's valuation against the risk the write down imposes upon the company's operations?

It was not an easy decision to take because with Bailador being a publicly listed company we're showing the world that we're writing it down to zero. It doesn't exactly signal confidence in the business. Even though we thought we would get through, we thought on balance, it was the most prudent thing to do. The management team understood and we still have great relationships with them to this day, but that's an example of where we wrote it down.

We have very consciously taken an approach of being conservative on our valuations, and we want to always surprise on the upside when we sell and there's now a lot of empirical evidence that that's what we're doing. We've had well over 30 third party transactions in the portfolio. Every single one of them has been at or above our carrying value. We've had 12 cash realisations, partial or full. Every single one of them has been above our carrying value.

The average uplift is 39%. And so for people that have watched us closely and watched us over time, they really now get that we're being conservative on our valuations. We intend to continue that approach. It probably costs us in the short term in share price, just raw quantum of share price. But over time I think it's just the right thing to do.

Figure 9: Bailador's NTA has been dragged down by its listed holdings

	Valuation ($'m)	Gain (%)		NTA per share ($)	Third Party Event Valuation	Next Valuation Review[1]
SiteMinder	68.0	421%	▲	0.47	✓	Mark to market each month end
Rezdy	24.9	98%	▲	0.17	✓	May 2024
Access Telehealth	15.6	0%	▶	0.11	✓	December 2023
Rosterfy	9.8	0%	▶	0.07	✓	April 2024
Nosto	9.2	(18%)	▼	0.06	✓	February 2024
Mosh	7.5	0%	▶	0.05	✓	December 2023
Straker	4.7	(38%)	▼	0.03	✓	Mark to market each month end
Cash	104.3			0.72		
Other[2]	(3.5)			(0.03)		
Net Asset Value / Net Asset Value Per Share (Pre Tax)	240.5			1.65		

Denotes change to valuation in current month Denotes valuation review in next six months

[1] Next valuation review date refers to the date of the next formal valuation review. Valuation events can also occur in a shorter time frame where there is a third-party investment or a valuation change material to BTI.
[2] Includes provision for performance fee not yet payable.

***Please Note**: Figures in this report are unaudited and exclude tax. The current value for each investment in the table above is consistent with the BTI investment valuation policy, which may be found in the BTI prospectus lodged with ASIC on 3rd October 2014 and available on the ASX website.*

Source: Bailador

How do you maintain discipline when you're sitting on a hundred million dollar pile of cash[10]?

Well, part of it is both David and I have got decades of experience, and we haven't always gotten everything right every time. We know the pain involved when we make mistakes and so that's where the real discipline comes from, is knowing that you don't want to go through that again.

Saying no to things that have a reasonable risk of going badly is just as important as saying yes to things that are going to go well. And that's right at the core of what we do.

Where do you see Bailador in three to five years?

To be honest, doing pretty much the same thing. We'll probably have more net tangible assets, but we are not driven by a desire to have big net tangible assets. We're not driven by a desire to have a big portfolio of companies or a big team. We're driven by a desire to just generate premium returns year after year on a repeating basis. And we feel that we can do that by being an expansion capital fund with the team size we have, getting involved in a portfolio that's manageable, somewhere between eight to twelve companies.

For the time being, we're just going to keep doing what we've been doing. Now, if we see opportunities, for example, in the public market, we'll look closely at whether we should start

[10] At the end of October, Bailador reported $104 million of cash on its balance sheet, representing almost 59% of its current market cap of $177 million.

investing in some of those, perhaps treat them almost as a private company if they're at the smaller end, take substantial positions, help run them as if they're a private company and they become part of our portfolio.

So that certainly could happen. We think about whether we should provide debt in one form or another to some of the growth companies as an alternative to equity financing, certainly convertible debt, it comes under that umbrella. Anything we do though is likely to be an organic iteration of what we're already doing.

It wouldn't surprise me if in that timeframe we still have eight to twelve portfolio companies, the same sized team but a large asset base. We might also be writing larger checks, maybe we have a few more companies in the portfolio on a slightly larger team, but we want to just keep doing what we're doing for investors.

Aside from capital, which if needed you could go to the market for, do you have other internal factors that limit the number of companies in the portfolio?

The pace of our investing is opportunistic rather than a set rate. It so happened that we found three companies in the health tech space in quick succession. And that does happen when you dig into a space and you get to know lots of players, you can find a few golden nuggets that all turn up at one time. After that though, you might not write another check for a while. But we always want to be open for business. We always want to have enough capital to be investing. And if we were to invest the cash that we have now and had to raise some more capital, that's fine. We'll do that. If we have an imbalance of cash versus opportunities, well, we can distribute some more cash with the caveat that it needs to be tax efficient.

We'll make follow on investments in our favourite children. Once you've done all the work to identify an opportunity, get to know the management team, put any necessary governance and structure in place, and get the momentum going in that company, if you get the opportunity to follow on, then that's something we really like to do. We've done that with Rezdy, we've done that with Access Telehealth, we'll do it with others and which helps deploy capital as well.

We spoke earlier about how the tech sector and markets change, this actually opens up opportunities for us. There are some investors who have gone cold on the sector, for a number of reasons. This gives us opportunities to buy them out of their position. Because they’re unlisted companies, they can't just go and sell their shares on a stock exchange, so it's a private transaction and those usually happen at pretty substantial discounts to prevailing valuations. I think we'll see more of that as well.

What is Bailador’s performance fee structure?

Performance fees are triggered once the return since inception (measurable by net tangible assets) is greater than 8% per annum after all fees and costs. It also requires the return for the year in question to be above 8% after all fees and costs.

There’s also a highwater mark, so if we make the gains one year, but then decline the next, the hurdle rate remains at the previous high, it doesn’t reset to the lower level. The fee is 17.5% of gain above the hurdle rate but are paid only from cash realisations.

What is the most misunderstood part of the business?

The image that people have in their heads of 25 year old founders playing ping pong and dreaming up big ideas that turn into billion dollar companies overnight. It's nothing like that in our world. It's far more mundane. It’s constantly researching, analysing and doing due diligence on opportunities.

We have hundreds of them coming to us each year. We filter through the ones that we want to spend more time on, learning as much as we can from people that know in the relevant industry segments. Spending time to do our own research, modelling, customer interviews, getting to know the founders on a personal level as well as what you see in the pitch deck.

Then once we invest it’s working with the founders and management team over years to grow the business and gradually working towards those goals that we’ve all agreed to try and hit together and setting them up for success to do that. So not quite as exciting as making a billion dollars while you pay ping pong and come up with big ideas. But we invest in real businesses that grow year after year. We're not so much about the idea.

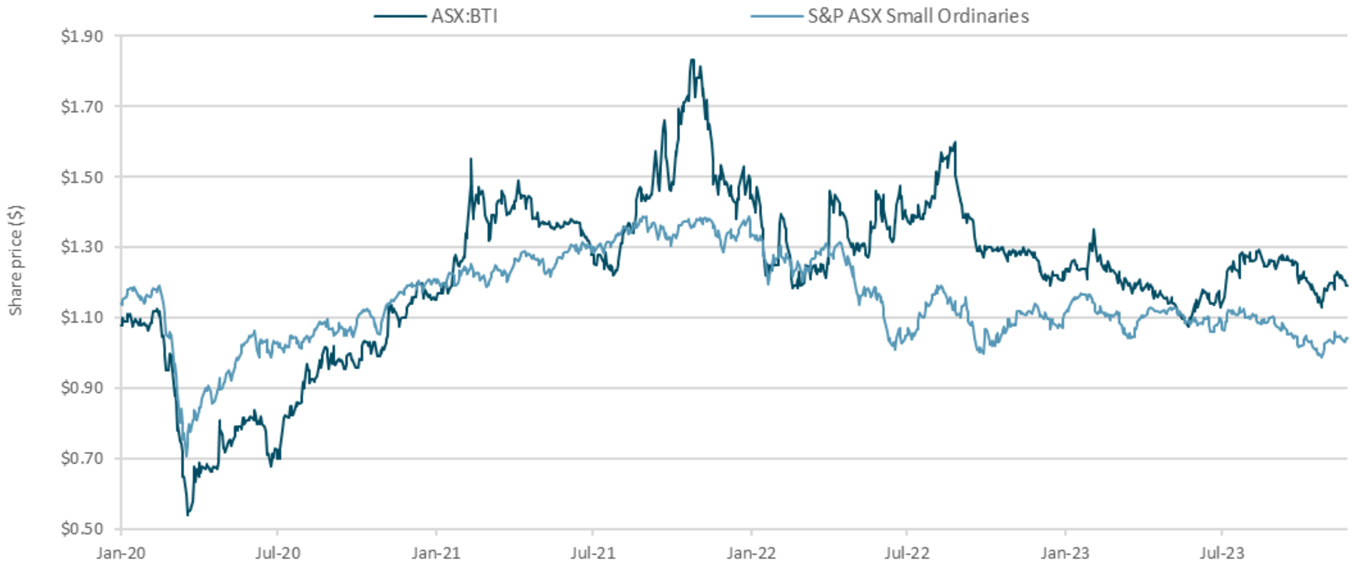
What is it that you'd like investors to better understand about Bailador?

We’d like investors to be more aware of our track record of realising cash at higher valuations than we value the assets on our balance sheet. The current share price doesn't really give a lot of credit to the value of our portfolio. We've repeatedly shown over and over again that the portfolio is valued conservatively. But once again, it's a timing thing. It creates an opportunity for those that do see the value and over time the value will be what we realise these assets for. So they'll get rewarded. It's just if investors want to sell their shares in the meantime, they're not necessarily getting the bump of that extra premium. So I'd love investors to understand that track record.

How do you respond to investors who say ask “Why don't you give the market more confidence in the valuation of your companies and stop being so conservative?”

It's a fair point and it's something we ask ourselves from time to time and something we also discuss with our independent directors. I'd say it's just something that's always under consideration, but up to this point, our DNA has always just been about under promising and over-delivering.

Share price performance



Source: Factset

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