



Tekcapital - Update

3rd October 2018

Placing funds further development and shares continue to trade at a substantial discount to NAV

AIM listed Tekcapital is an international provider of technology and intellectual property investment services. The company's objective is to create value from investing in new, university-developed intellectual properties and to produce returns through capital appreciation. Since our last update in August Tekcapital has announced interim results, a placing of \$1.15 million and positive updates across certain investee companies.

■ Interims show increased service revenues and rise in NAV

Numbers for the six months to 31st May 2018 showed another profitable period of trading, with total revenues of \$1.28 million and a pre-tax profit of \$105,996. Revenues from services were up by 29% at \$0.64 million reflecting continued growth of technology transfer services, particularly in Latin America. Net assets were up by 35% over 12 months at \$10.75 million, with NAV per share up by 32% at 25 cents.

■ Placing raises \$1.15 million to invest in portfolio company expansion

Tekcapital has raised \$1.15 million by issuing 11,698,335 new shares at a price of 7.5p each. The proceeds will be used to fund investment in key activities, to further develop and progress with the commercialisation of its portfolio of IP technologies and for working capital.

■ Investee companies report further progress

Autonomous vehicle technology developer Guident Ltd has appointed Harald Braun, an experienced telecoms industry executive, as Chairman. Also, medical device business Belluscura, along with research partner Separation Design Group, has filed three patent applications & received a Notice of Allowance of a fourth application in the fields of respiratory, postoperative recovery, sedation/sleep monitoring and artificial intelligence. This enhances the IP position of its forthcoming portable oxygen concentrator & other products under development.

■ Shares trade at a large discount to NAV and the IP sector average

Tekcapital shares currently trade at a c.50% discount to NAV (accounting for the placing) and at a 54% discount to the wider UK IP sector average price-to-book value ratio. **This, combined with additional value creation opportunities, leads us to retain our stance of Conviction Buy.**

Table: Financial overview. Source: Company & Align Research

Year to end Nov	2013A	2014A	2015A	2016A	2017A
Revenues (\$m)	0.04	0.21	0.41	0.76	7.26
Pre-tax (\$m)	(0.04)	(0.99)	(1.46)	(2.56)	4.15
EPS (c)	(0.3)	(5.0)	(4.9)	(6.3)	10.8

CONVICTION BUY – Price target 18.44p



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Key data

EPIC	TEK
Share price	8.5p
52 week high/low	30p/8.5p
Listing	AIM
Shares in issue	42,654,707 (54,353,042 post placing)
Market Cap	£3.63m (£4.62m post placing)
Sector	Int. Property

12 month share price chart



Analyst: Richard Gill, CFA

richard.gill@alignresearch.co.uk

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Interim results

Numbers for the six months to 31st May 2018 showed another profitable period of trading, with total revenues of \$1.28 million and a pre-tax profit of \$105,996. Revenues from the services side of the business were up by 29% at \$639,561 reflecting continued growth of technology transfer services, particularly in Latin America. In addition, the company saw a \$638,852 unrealised profit on the revaluation of investments - see below.

Pre-tax profits were down from \$1.55 million in H1 2017 mainly due to first time recognition of the fair value of portfolio companies in the same period last year. Notably, costs were well managed, with admin expenses for the half down from \$1.75 million to \$0.8 million.

On the balance sheet, cash stood at \$1.42 million at the period end, down from \$1.8 million six months previously, with the major outflow being \$0.38 million used in operations. The company remains debt free. **Net assets were up by 35% over 12 months at \$10.75 million, with NAV per share up by 32% at 25 cents.**

Portfolio

Tekcapital's investee portfolio value stood at \$8.41 million at the period end, up from \$7.3 million three months previously. Three major movements affected the change. Firstly, the company's stake in low sodium salt company Salarius was revalued up from \$15,128 to \$2 million following an external valuation of the business. This was offset by a \$1.34 million downward revaluation in augmented reality glasses developer Lucyd to \$4.68 million. This came following volatility in cryptocurrencies in which the company holds the majority of its funds following the recent successful \$6 million token generation event. Also, the fair value of the stake in medical device Belluscura rose from \$0.98 million to \$1.41 million after Tekcapital invested \$0.25 million in a private placement and converted \$0.21 million of loans into equity.

Investee Company	Value as at 01/12/2017	Additions	Exchange difference	Fair value gain/(loss)	Value as at 31/05/2018
Lucyd Ltd	6,023,955	3,766	-11,617	-1,339,359	4,676,745
Belluscura Limited	981,762	460,090	-29,351	-6,913	1,405,588
Salarius Ltd	15,128	-	-253	1,985,125	2,000,000
Non Invasive Glucose Tek Limited	24,199	-	-402	-	23,797
Smart Food Tek Limited	44,167	320	-738	-	43,749
eGravitas Limited	154,535	12,873	-2,390	-	165,018
Frigidus Ltd	52,968	-	-766	-	52,202
eSoma Limited	10,983	11,914	-	-	22,897
Guident Limited	-	21,860	-	-	21,860
TOTAL	7,307,696	510,823	-45,517	638,853	8,411,856

Table - Tekcapital portfolio companies' valuation (\$). Source: interim results statement

Placing

On 2nd October Tekcapital confirmed the raising of \$1.15 million (£0.9 million) via a placing of 11,698,335 shares at 7.5p each. The proceeds will be used to further develop and progress with the commercialisation of its portfolio of IP technologies, to accelerate growth of services in Latin America and for working capital. Admission of the new shares to trading on AIM is expected on or around 16th October 2018.

Investee company updates

Guident Ltd

Wholly owned portfolio company Guident Ltd, which is commercialising technology for autonomous vehicles and drones, has appointed Harald Braun as its Chairman. Mr. Braun has significant experience in the telecommunications industry having managed many private and public companies in the sector as president and CEO, including Siemens Networks USA (NYSE: SI) and Aviat Networks (NASDAQ: AVNW). Harald has also served on the Board of Directors of BigBand Networks (NASDAQ: BBND, acquired by ARRIS) and Tarana Wireless, Inc. and was Chairman of its Advisory Board and on the Advisory Board of Broadsoft (NASDAQ:BSFT, acquired by CISCO). He has also served as Senior Executive at Nokia Siemens Networks, North America and as treasurer and executive board member of the Alliance for Telecommunications Industry Solutions (ATIS). Currently, he is on the Board of CLAdirect INC., a Solution Technology provider and Dialogic Group INC., a leading provider of cloud-optimised real-time multimedia processing solutions and network infrastructure solutions.

Guident was established by Tekcapital in 2017 to exclusively license and commercialise new technology to enhance the utility, safety and enjoyment of autonomous vehicles and drones. The overall goal is to develop a family of apps and provide them to autonomous vehicle manufacturers and their customers. Guident has exclusively licensed U.S. Patent #9,429,943 from Florida Agricultural and Mechanical University which has the potential to enable the development of software apps for controlling autonomous vehicles such as cars, trucks and drones using artificial intelligence. **The company is targeting a large and growing market, with analysts at Market Research Future expecting the autonomous vehicle market is to be worth \$65.3 billion by 2027.**



Belluscura

On 17th September 2018 Tekcapital announced that 33% owned medical device business Belluscura, in conjunction with exclusive research partner Separation Design Group, filed three patent applications and received a Notice of Allowance of a fourth application in the fields of respiratory, postoperative recovery, sedation/sleep monitoring and artificial intelligence.

The latest patent application, "System and method for improving patient recovery postoperatively," involves the combining of artificial intelligence and deep learning with Belluscura's patented oxygen enrichment and sleep technology to improve patient post-operative recovery and reduce hospital re-admission. Belluscura now owns or exclusively licenses 15 patents and applications in the respiratory, sedation/sleep monitoring and artificial intelligence (AI) fields.

As highlighted in our previous note, there are large opportunities in the portable oxygen concentrator (POC) market for Belluscura's CURV™ product, for which a 510(K) application is expected to be filed with the FDA this year. POCs are typically prescribed to people suffering from chronic obstructive pulmonary disease (COPD), a condition which the World Health Organization estimates 64 million people suffer from around the world in moderate to severe form. **According to analysts at Winter Green Research the POC market is expected to nearly double to \$2.2 billion by 2021.**



Valuation

Despite the consistent stream of good news seen over the past few months Tekcapital shares have hit an all-time low of 8.5p. Accounting for the new shares in issue following the placing, this capitalises the company at £4.62 million. Adding the placing funds to NAV of \$10.75 million (£8.29 million) as at 31st May 2018 equates to a figure of c.£9.18 million, or 16.88p per share. **So assuming that the placing shares have been issued, Tekcapital is trading at a 50% discount to NAV.**

Peer analysis

As per our previous notes we also highlight Tekcapital's valuation in comparison to its listed peers.

Company	EPIC	Market cap (£m)	Net Assets (£m)*	Price to book value
IP Group	IPO	1,346	1489.8	0.90
Allied Minds	ALM	172.1	321.0	0.54
Mercia Technologies	MERC	107.7	123.5	0.87
NetScientific	NSCI	24	14.7	1.63
Frontier IP	FIPP	25.1	12.23	2.05
Tekcapital	TEK	4.62	8.28	0.56
AVERAGE				1.09

*Table: UK listed IP companies' analysis. Exchange rate of £1:\$1.29644 assumed. Prices as at 2nd October August 2018. ¹ Group Subsidiary Ownership Adjusted Value used. * as at last balance sheet date. Source: Align Research.*

In terms of price-to-book value (or premium to NAV) we calculate a current sector average premium of 9% - investors often apply a premium to NAV for IP companies as they anticipate future increases in the fair value of their investment portfolios. The premium is down from 15% as at the date of our last update note mainly due to a fall in share prices across certain constituents. **Applying this 9% premium to NAV to Tekcapital implies a share price of 18.44p per share, 117% upside from the current price.**

Conclusion

With Tekcapital shares continuing to trade at a substantial discount to both NAV and to the wider IP investment sector we see an attractive buying opportunity for investors who want to gain exposure, effectively at half price, to a portfolio of promising early stage technology companies. Following the recent placing the company is well positioned to further invest in opportunities across its portfolio, with income from the services business growing steadily and, in our view, looking set to cover group administration costs in the medium term.

Providing further upside opportunities, we note that c.75% of Tekcapital's current portfolio value is derived from three investments – Lucyd, Belluscura and Salarius. The remainder comes from the six other portfolio companies, all of which are conservatively valued at cost of the acquired intellectual property plus additions. Therefore, an uplift in the valuation of any one additional portfolio company, driven by a fundraising or other value event, could have a significant impact on the balance sheet and increase NAV further. The effect of this was evidenced in the interim results by the fair value of Salarius rising from \$15,128 to \$2 million following an external valuation.

Our stance remains at Conviction Buy.

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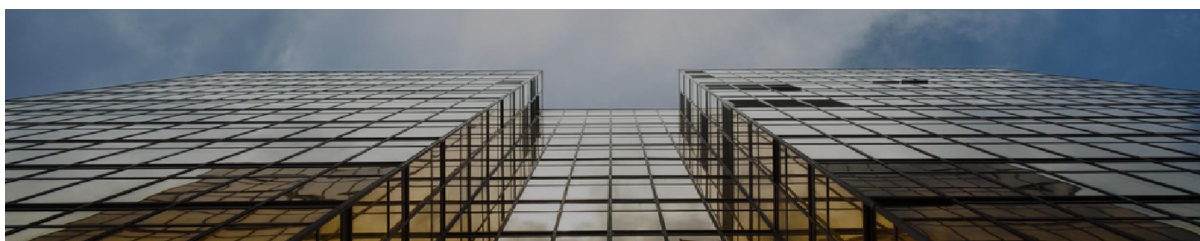
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Align Research Limited
7 Moorhead Lane
ShIPLEY
UK
BD18 4JH

Tel: 0203 609 0910
E: info@alignresearch.co.uk