

Allied Minds

Interim results

Is this the turning point?

H119 has been a period of real progress for Allied Minds, with strategic funding rounds for Federated Wireless and HawkEye 360 and the \$65.6m sale of Allied Minds' stake in HawkEye 360 to Advance. With the transaction subject to shareholder approval, 50% of the sale proceeds (\$32.8m, c 11p/share) are expected to be returned to shareholders in Q419. Management expects HQ operational costs to reduce to c \$7.5m for FY20. It has also taken the opportunity to rationalise the investment portfolio, with the remaining assets showing good progress. Parent cash at 30 June 2019 was \$46.6m (\$31.3m adjusted for post period-end investments). With NAV no longer disclosed by the company, our latest assessment, adjusted for post period-end investments, is 100.2p/share (87.5p/share fully-diluted).

Period end	Portfolio fair value (US\$m)	Parent-level net cash (US\$m)	NAV (US\$m)	NAV/share (p)	P/NAV (x)
12/17	395.6	84.2	479.8	150.0	0.35
06/18	350.1	66.0	416.1	132.4	0.40
12/18*	226.7	50.6	277.3	93.4	0.56
06/19**	266.1	31.3	297.3	100.2	0.53

Note: NAV is calculated as fair value plus net cash at the parent level. *FY18/H119 NAV is based on our estimate of fair value as this is no longer disclosed by the company.

**H119 net cash and NAV are adjusted for post period-end investments.

Interim results

Revenue decreased by \$0.6m, to \$1.5m for H119 (H118: \$2.1m), primarily due to deconsolidation of two of the company's subsidiaries, SciFluor and Precision Biopsy. Cost of revenue for H119 fell to (\$0.6m), as did net finance income to \$5.5m (H118: \$49.4m), primarily reflecting the deconsolidation. Other income increased to \$24.7m (2018: zero), with a \$33.9m gain on investments offset by losses from deconsolidated entities. Total comprehensive income for the year fell to \$2.3m for H119 (H118: \$4.1m). Net cash and investments at 30 June 2019 stood at \$56.8m (FY18: \$97.7m), of which \$46.6m was at parent level (FY18: \$50.6m).

Portfolio update

Other than the funding rounds at HawkEye 360 and Federated Wireless, the remaining technology portfolio companies continue to report technical and commercial progress. However, Allied Minds took the decision to cease operations at Precision Biopsy and sold its stake in QuayChain for an undisclosed amount. With no material newsflow from SciFluor following its Q4 bridge round, we have prudently ascribed zero value to SciFluor (FY18: \$2m) pending further news.

Valuation: 47% discount to firm-looking NAV

Allied Minds has delivered additional validation for two of its three principal portfolio companies since its strategic review in April and will effect a material return of capital to shareholders (with the transaction subject to shareholder approval). With this validation of its assets, together with a focus on preserving cash and delivery of material cash exits, we believe this provides a solid NAV on which Allied Minds should build over time, with our adjusted NAV per share of 100.2p (or 87.5p on a fully-diluted basis).

Investment companies

1 October 2019

Price **52.6p**
Market cap **£127m**

US\$1.23/£

Parent cash (\$m) at 30 June 2019 46.6

Shares in issue 241.3m

Free float 91%

Code ALM

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(10.4)	(28.0)	(27.4)
Rel (local)	(12.8)	(28.0)	(26.2)
52-week high/low		84.2p	37.3p

Business description

Allied Minds is an IP commercialisation company with a concentrated investment portfolio focused on early-stage companies within life sciences and technology. Its portfolio companies are spin-outs from US federal government laboratories and universities.

Next events

Trading statement February 2020

Full year results April 2020

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Interim results summary

During H119, revenue decreased to \$1.5m in H119 (H118: \$2.1m), primarily due to deconsolidation of two of the company's subsidiaries, SciFluor and Precision Biopsy. Net finance income fell to \$5.5m (H118: \$49.4m), largely as a result of the deconsolidation. Other income increased to \$24.7m (2018: zero), reflecting a \$33.9m in gain on investments held at fair value, offset by losses from the deconsolidated entities. Total comprehensive income for the year decreased to \$2.3m for H119 (H118: \$4.1m).

Non-current assets rose to \$117.0m at 30 June 2019 (FY18: \$83.7m), mainly due to a \$36.4m portfolio company fair value increase. Current assets decreased to \$63.1m (FY18: \$107.0m), reflecting a fall in cash and cash equivalents to \$40.9m.

The group's net cash outflow from operating activities of \$26.3m in H119 (H118: \$39.7m) reflected the \$27.7m net operating losses for the period (H118: \$45.1m), together with an increase in working capital and other finance costs of \$8.2m (H118: \$3.5m).

The group had a net cash outflow from investing activities of \$5.0m in H119 (H118: -\$2.0m), predominantly related to purchases of property and equipment and intangibles of \$2.5m (H118: \$1.6m) and a \$2.5m investment in Spin Memory in April 2019. Net cash outflow from financing activities of \$12.0m in H119 (H118: \$11.9m) partly reflects \$12.0m cash distributions to shareholders from the dissolution of Signature Medical and the remaining ABLs companies in the first half of 2019.

Net cash and investments at 30 June 2019 stood at \$56.8m (FY18: \$97.7m), of which \$46.6m is held at parent level (FY18: \$50.6m).

Outlook: Further progress expected across portfolio

Allied Minds has now largely delivered on the key terms of the April strategic review, intended to give it the best opportunity to maximise shareholder returns over the medium term, without further recourse to the financial markets:

- focus remaining cash resources on key assets in the current portfolio;
- new investment on indefinite hold; and
- further cuts to central costs (to reduce opex to \$5–6m pa).

The company has made good progress in terms of cost reduction, with a number of measures taken, including a reduction in headcount to eight staff and subletting its HQ office space, both by 1 November 2019. However, it has also revised its estimate of ongoing annualised HQ operating expenses to c \$7.5m in FY20, driven primarily by a substantial increase in the cost of director and officer insurance. Of the estimated \$7.5m in central costs for FY20, \$2.9m represents public company costs.

With adjusted net cash of \$31.3m at 30 June 2019 (adjusted for \$15.3m of investments), together with cash of \$32.8m from the sale of its stake in HawkEye 360, management expects to have sufficient cash to allow it to continue to invest in existing assets and maximise the value of its portfolio to shareholders over the medium term, which we understand to mean potentially a three- to four-year time horizon.

In terms of its three principal assets (ex HawkEye 360), Allied Minds also reiterated the key operational objectives for each over the course of 2019:

Exhibit 1 Federated Wireless – 2019 key operational management objectives

- ICD approval, followed by FCC certification – **complete**
- Complete build-out of nationally available environmental sensing capability (ESC) network to meet customer requirements – **complete**
- Build infrastructure and capacity to support scale of the business – **ongoing**

Source: Allied Minds

Exhibit 2: BridgeComm 2019 – key operational management objectives

- Successfully demonstrate One-To-Many (OTM) optical communications technology – **complete**
- Develop strategic partnership programme with commercial technology partners to extend the OWC technology offerings – **ongoing**
- Expand the capacity of the global ground network through industry partnerships and ground station installations – **ongoing**
- Continue developing intellectual property around BridgeComm specific technology – **ongoing**
- Continue the strategic relationship with The Boeing Company on both commercial and US Government programmes – **ongoing**
- Build strong commercial and government customer backlog – **ongoing**

Source: Allied Minds

Exhibit 3: Spin Memory – 2019 key operational management objectives

- Create proof of concepts in silicon that demonstrate the superior performance of Spin Memory's technologies – **ongoing**
- Leverage exclusive licensing agreements with Applied Materials and ARM to bring technology IPs into the mainstream – **ongoing**
- Build strong commercial and government customer backlog for new use cases in AI, ADAS, 5G, IoT and more – **ongoing**

Source: Allied Minds

Portfolio: Condensed, with solid underpinnings

Third-party investors subscribed for \$110.3m of portfolio company equity in H119, including \$105.8m post period-end, while Allied Minds invested \$24.3m, including \$15.3m post period-end.

Allied Minds' portfolio has now been reduced to eight assets (including HawkEye 360 and SciFluor), with four principal assets (HawkEye 360, Federated Wireless, BridgeComm and Spin Memory). We have already highlighted the progress at HawkEye 360 and Federated Wireless. However, although less newsworthy, we understand that the remaining technology portfolio companies also continue to make good technical and commercial progress.

During the period, management took the decision to cease operations at Precision Biopsy and sold its stake in QuayChain for an undisclosed amount. With no material newsflow from SciFluor following its Q4 bridge round (ALM, Woodford), we have prudently ascribed zero value to SciFluor (FY18: \$2m), pending further positive news.

We believe that the write-downs in value of Precision Biopsy, QuayChain and SciFluor provide a solid NAV on which Allied Minds should build over time, with our adjusted NAV per share of 100.2p (or 87.5p on a fully-diluted basis).

Exhibit 4: Allied Minds' portfolio – with Edison assumptions on fair value

Company	Business description	Date of latest funding round	Edison adjusted value at 31/12/18 (US\$m)	Edison adjusted value at 26/9/19 (US\$m)	Edison adjusted value at 26/9/19 (US\$m)	ALM holding 24/9/19	ALM holding 24/9/19	Basis of estimate of Edison fair value assessment
			Undiluted	Undiluted	Fully-diluted	Un-diluted	Fully-diluted	
Federated Wireless	Cloud-based SaaS business	Sep 19	63.5	85.7	72.1	43%	36%	Valuation of last round (strategics)
HawkEye 360	RF data analytics company	Aug 19	43.4	65.6	65.6	41%	32%	Cash offer (shareholder approval)
Spin Memory	MRAM Semiconductor memory	Apr 19	73.4	73.4	57.8	43%	34%	Valuation of last round (strategics)
BridgeComm (BridgeSat)	Optical communications service provider	Sep 18	30.9	30.9	23.9	81%	63%	Valuation of last round (strategics)
TableUp	Restaurant supply chain software provider	Apr 18	4.3	4.3	3.6	36%	30%	Valuation of last round
Orbital Sidekick	Space-based hyperspectral imaging/analytics	Apr 18	3.9	3.9	3.5	33%	30%	Valuation of last round (3rd party)
Spark Insights	Property insurance analytics	Apr 19	2.3	2.3	1.9	71%	60%	Valuation of last round
Other investments								
Precision Biopsy	Medical device and analytics company	Nov 19	2.5	0.0	0.0	65%	55%	Written off by ALM
SciFluor	Developer of a topical eye droplet treatment	Nov 19	2.0	0.0	0.0	70%	60%	Written down to zero by Edison
QuayChain	CBRS-enabled Smart Industrial Hubs	Sep 18	0.6	0.0	0.0	72%	65%	Sold for undisclosed amount
Fair value (calculated by Edison)			221.7	266.1	228.4			
Net cash held at the parent company			50.6	46.6	46.6			
Investments (post period end)				(15.3)	(15.3)			
Edison adjusted NAV (\$m)			272.3	297.3	259.7			
Edison adjusted NAV (pence per share)				100.2	87.5			
Latest share price (30 Sept 2019)				52.6	52.6			
Implied discount to Edison adjusted NAV				47%	40%			

Source: Allied Minds data, Edison Investment Research

Valuation: 47% discount to firm-looking NAV

As we have noted previously, given its narrowed portfolio, Allied Minds now looks less like its patient capital and IP commercialisation peers, as it offers look-through to a concentrated number of emerging technology businesses.

Allied Minds' shares currently trade at a 47% discount to our adjusted estimate of H119 NAV of 100.2p (Exhibit 4), or a 40% discount on a fully-diluted basis.

Exhibit 5: Peer group comparison

	Price	Currency	Market cap (m)	NAV (m) (last reported)	Cash/ (debt) (m)	NAV premium/ discount	NAV per share (p)
Allied Minds	52.6	GBP	127	242	25	0.53	100.2
Arix Bioscience	112.5	GBP	153	270	20	0.56	171.0
Augmentum FinTech	109.5	GBP	128	135	51	0.95	114.9
Draper Esprit	419.0	GBP	494	619	100	0.80	524.0
HgCapital	232.0	GBP	934	984	79	0.95	245.0
IP Group	63.6	GBP	674	1,172	71	0.57	110.6
Malin Corporation	4.00	€	183	361	(24)	0.51	7.90
Mercia Asset Management	30.8	GBP	93	125	38	0.75	41.3
Oakley Capital	225.5	GBP	462	651	96	0.71	318.0

Source: Refinitiv data; Edison Investment Research. Note: Priced at 30 September 2019.

Exhibit 6: Financial summary

	\$'000	2014	2015	2016	2017	2018
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		7,715	3,300	2,664	5,001	5,561
Cost of Sales		(5,416)	(3,925)	(5,563)	(5,242)	(2,827)
Gross Profit		2,299	(625)	(2,899)	(241)	2,734
Normalised operating profit		(47,510)	(89,372)	(103,925)	(94,542)	(83,583)
Amortisation of acquired intangibles		0	0	0	0	0
Exceptionals		(1,479)	(309)	(1,365)	(2,363)	(545)
Share-based payments		(8,939)	(7,041)	(8,385)	(7,562)	(7,413)
Reported operating profit		(57,928)	(96,722)	(113,675)	(104,467)	(91,541)
Net Interest		222	670	2,318	305	1,313
Joint ventures & associates (post tax)		0	0	0	0	(1,301)
Fair value changes		0	(1,937)	(17,585)	(6,953)	138,841
Profit Before Tax (norm)		(47,288)	(90,639)	(119,192)	(101,190)	55,270
Profit Before Tax (reported)		(57,706)	(97,989)	(128,942)	(111,115)	47,312
Reported tax		0	0	0	0	0
Profit After Tax (norm)		(47,288)	(90,639)	(119,192)	(101,190)	55,270
Profit After Tax (reported)		(57,706)	(97,989)	(128,942)	(111,115)	47,312
Minority interests		12,228	20,192	32,609	35,337	(7,990)
Discontinued operations		0	0	0	0	0
Net income (normalised)		(35,060)	(70,447)	(86,583)	(65,853)	47,280
Net income (reported)		(45,478)	(77,797)	(96,333)	(75,778)	39,322
Basic average number of shares outstanding (m)		186	215	217	236	241
EPS - basic normalised (\$)		(0.19)	(0.33)	(0.40)	(0.28)	0.20
EPS - diluted normalised (\$)		(0.19)	(0.33)	(0.40)	(0.28)	0.20
EPS - basic reported (\$)		(0.24)	(0.36)	(0.44)	(0.32)	0.16
Dividend (\$)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	(57.2)	(19.3)	87.7	11.2
Gross Margin (%)		29.8	-18.9	-108.8	-4.8	49.2
Normalised Operating Margin		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		44,039	92,784	38,232	28,369	86,096
Intangible Assets		3,409	4,384	2,762	1,074	1,221
Tangible Assets		16,330	34,173	31,882	26,627	5,997
Investments & other		24,300	54,227	3,588	668	78,878
Current Assets		248,991	158,427	232,007	184,792	107,034
Stocks		2,919	1,511	2,551	0	0
Debtors		6,305	7,342	5,900	15,642	6,400
Cash & cash equivalents		224,075	105,555	209,151	158,075	100,234
Cash at parent*		N/A	N/A	136,700	84,200	50,600
Other		15,692	44,019	14,405	11,075	400
Current Liabilities		(62,480)	(108,974)	(155,402)	(200,202)	(69,557)
Creditors		(11,339)	(14,268)	(13,941)	(14,276)	(13,030)
Tax and social security		(947)	(395)	(458)	(4,296)	(2,333)
Short term borrowings		(213)	(228)	(115)	0	0
Subsidiary preferred shares		(49,981)	(94,083)	(140,888)	(181,630)	(54,194)
Long Term Liabilities		(717)	(863)	(720)	(867)	(436)
Long term borrowings		(338)	(112)	0	0	0
Other long term liabilities		(379)	(751)	(720)	(867)	(436)
Net Assets		229,833	141,374	114,117	12,092	123,137
Minority interests		4,946	10,631	20,797	59,241	4,490
Shareholders' equity		234,779	152,005	134,914	71,333	127,627
CASH FLOW						
Op Cash Flow before WC and tax		(44,618)	(85,286)	(97,290)	(88,440)	(77,525)
Working capital		(981)	2,652	468	(2,477)	6,033
Exceptional & other		0	0	0	0	(283)
Tax		0	0	0	0	0
Net operating cash flow		(45,599)	(82,634)	(96,822)	(90,917)	(71,775)
Capex		(1,764)	(23,213)	(4,087)	(1,522)	(9,110)
Acquisitions/disposals		(38,967)	(51,786)	74,816	5,853	(18,884)
Net interest		222	716	1,602	138	896
Equity financing		154,408	2,443	79,319	1,595	1,594
Dividends		0	0	0	0	0
Other		54,473	36,165	48,993	33,892	39,438
Net Cash Flow		122,773	(118,309)	103,821	(50,961)	(57,841)
Opening net debt/(cash)		NA	(223,524)	(105,215)	(209,036)	(158,075)
FX		0	0	0	0	0
Other non-cash movements		0	0	0	0	0
Closing net debt/(cash)		(223,524)	(105,215)	(209,036)	(158,075)	(100,234)

Source: Company accounts. Note: *For clarity, cash at parent has been broken out as a separate line from cash & cash equivalents. As a line item, it does not form part of the calculation for current assets.

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