

Allied Minds

Class 1 disposal

Sale of HawkEye 360, returns to shareholders

Allied Minds has announced the sale of its stake in HawkEye 360 for \$65.6m to Advance Publications, a US family office. The transaction is expected to complete in Q419, subject to shareholder approval (shareholders representing 58% of shares have indicated they will vote in favour). HawkEye 360 announced its \$70m Series B funding round in August 2019, backed by Airbus and Esri, at a pre-money valuation of \$200m. The Advance offer has been struck at a c 13% discount to the fully diluted valuation of this last funding round, delivering a 5.6x ROI and IRR of 96%. The company expects to retain 50% of the proceeds with 50% (c 11p per share, pps) returned to shareholders via a special dividend or share buyback.

Period end	Ownership adjusted value (OAV) (US\$m)	Parent-level net cash (US\$m)	NAV (US\$m)	NAV/share (p)	P/NAV (x)
12/16	415.8	136.7	552.9	208.0	0.29
12/17	395.6	84.2	479.8	150.0	0.40
06/18	350.1	66.0	416.1	132.4	0.45
12/18*	226.7	50.6	277.3	92.7	0.65

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

Sale of stake in HawkEye 360 for \$65.6m

Following HawkEye 360's recent Series B funding round with Airbus Industries and Esri (an international supplier of mapping software), Allied Minds has announced the sale of its stake in HawkEye 360 for \$65.6m to Advance Publications, a US family office. Subject to shareholder approval, the deal is expected to complete in Q419. Gross cash proceeds from the disposal total \$65.6m (21.9pps). Stripping out Allied Minds' \$5m participation in the Series B round (valued as cash), the deal represents a 5.6x ROI on Allied Minds' investment and an IRR of 96%. Irrevocable undertakings or letters of support in favour of the transaction have been received from shareholders representing 58% of Allied Minds issued share capital.

Use of proceeds

Allied Minds intends to initially return \$32.8m (11pps), 50% of the gross proceeds, to shareholders via a special dividend, share buyback or other method subject to market conditions. The remaining \$32.8m should allow Allied Minds to continue to participate in future fund raisings within its existing technology portfolio to maximise long-term shareholder value.

Valuation: 35–38% discount to a de-risked NAV

This proposed disposal goes some way to validate Allied Minds' strategy. Over the summer, Allied Minds delivered additional validation for two of its three principal portfolio companies and has now (subject to the shareholder vote) effected a material return of capital to shareholders. Allied Minds shares trade at a 35% discount to our estimated FY18 NAV of 92.7p or at a 38% discount to our estimated adjusted NAV of 96.3p (adjusted for HawkEye 360, Federated Wireless and cash).

Investment companies

24 September 2019

Price **60p**

Market cap **£145m**

US\$1.24/£

Parent cash (\$m) as at 31 December 2018 50.6

Shares in issue 241.3m

Free float 91%

Code ALM

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.8 (20.4) (12.3)

Rel (local) (2.5) (20.1) (10.1)

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

Interim results 26 September 2019

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Valuation: Material 35–38% discount to a de-risked NAV

Although Advance Publications' offer is struck at a discount to the valuation of the latest funding round for HawkEye 360, the investment still promises very good returns for Allied Minds

After stripping out Allied Minds' \$5m participation in the Series B round (valued as cash), the gross cash proceeds from the disposal total \$65.6m (21.9pps), representing a 5.6x ROI on Allied Minds' investment and an IRR of 96% over the four-year investment life.

Based on the fully diluted valuation, the offer has been made at a c 13% discount to the valuation of the Series B round, of which only the first \$35m tranche (of a \$70m total round in total) has closed.

Exhibit 1: HawkEye 360

Company	Description	Net value at 31/12/18 (US\$m)	Net cash invested (US\$m)	Fair value change (US\$m)	Net value as at 6/8/19 (US\$m)	% held at 6/8/19	Uplift in fair value / share (p)	Uplift in NAV / share (p)	Advance offer value (24/9/19)	Advance discount to full Series B valuation
HawkEye 360	RF data analytics company	43.4	5.0	32.3	75.7	28.0	10.8	9.1	65.6	13.4%

Source: Company, Edison Investment Research

The proposed disposal goes some way to validate Allied Minds' strategy. Over the summer, Allied Minds delivered additional validation for two of its three principal portfolio companies and has now (subject to the shareholder vote) effected a material return of capital to shareholders.

Based on our calculations, Allied Minds shares trade at a 35% discount to our estimated FY18 NAV of 92.7p or a 38% discount to our estimated adjusted NAV of 96.3p (adjusted for the anticipated cash proceeds from HawkEye 360, taking the valuation from the latest 4 September 2019 funding round for Federated Wireless, the cash invested in the HawkEye 360 and Federated Wireless funding rounds, as well as a nominal cash burn of \$5m for H119).

Our portfolio analysis is set out below.

Exhibit 2: Latest adjusted NAV calculations

Company	Adjusted value at 31/12/18 US\$	Adjusted value at 24/9/19 US\$	AM fully diluted holding 24/9/19	Basis of estimate of fair value
Spin Memory	73.4	73.4	34%	Valuation of last round
HawkEye 360	43.4	65.6	28%	Cash offer
Federated Wireless	63.5	72.0	36%	Valuation of last round
BridgeSat	30.9	30.9	63%	Valuation of last round
Precision Biopsy	2.5	2.5	55%	Cash value of bridge round
SciFluor	2.0	2.0	60%	Cash value of bridge round
TableUp	4.3	4.3	30%	Valuation of last round
Orbital Sidekick	3.9	3.9	30%	Valuation of last round
QuayChain	0.6	0.6	65%	Valuation of last round
Spark Insights	2.3	2.3	60%	Valuation of last round
Other investments				
Fair value	226.7	257.4		
Net cash held at the parent company	50.6	30.6		
NAV	277.3	288.0		
				Implied NAV discount
Share price as at 24/9/19		60.0p		
Full adjusted NAV	92.7	96.3p	38%	
Top 4 adjusted NAV		91.1p	34%	
FY18 NAV		92.7p	35%	

Source: Company, Edison Investment Research

Exhibit 3: 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 data, Edison Investment Research

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