

Bloc Ventures

H121 results

Two tech exits and new funds being raised

Since we [initiated](#) in September, Bloc has exited two portfolio companies at a premium to holding value, Marmalade (a games developer, sold to LDC for a 4.8x cash return) and EVERYTHING (an internet of things, IoT, data and real-time insights platform), acquired for an undisclosed price. Bloc has also made a new investment, Shield-IoT (large-scale IoT network security), taking its portfolio to 10 companies. Bloc has strengthened its team and governance with new hires and is actively raising a Series C funding round, as well as an early-stage investment fund (deeptech_one), for which discussions are ongoing with a potential cornerstone investor. Bloc's later-stage funding options may include an IPO in 2023.

H121 results: Leading to H221 exits

Bloc reported H121 net asset value (NAV) per share of £23.65, up 39% year-on-year but largely unchanged from H220. This included an up-round for Yordex and further investments in Zeetta and Tether Technology, as well as an initial investment in Mindtrace. Bloc held cash of £1.9m at 30 June 2021. However, this amount has been supplemented by the £9.3m initial cash consideration from the sale of Marmalade announced in September 2021. Since our [initiation](#), Bloc has exited its first two portfolio companies, Marmalade and EVERYTHING, at a premium to holding value and completed a new investment in Shield-IoT (see pages 3–4 for details).

Raising a Series C round and an early-stage fund

Bloc has commenced a Series C funding round to allow the company to continue to make two to four investments per year over 2022–23. Bloc is also looking to raise an investment fund (deeptech_one), targeting attractive early-stage UK deep tech companies at seed and seed+ stages, as part of a multi-stage investment strategy. Bloc's balance sheet will then provide the growth capital at Series A and beyond, with the Series C funding to ensure that Bloc can continue to invest in promising UK and European companies for longer, retaining meaningful equity stakes.

Increased investment capacity

The realisations of investments in Marmalade and EVERYTHING has delivered new capital for Bloc to invest in its portfolio. A number of Bloc's portfolio companies are expected to raise Series A/B funding rounds in the first half of 2022. Together with the anticipated Series C funding round and the early-stage fund (deeptech_one), this will significantly increase Bloc's investment capacity next year, moving the company a step closer to a potential IPO or Series D funding round in 2023.

Valuation: High-growth and maturing portfolio

Bloc can already point to a strong track record, with 39% growth y-o-y in NAV per share in H121, offering attractive potential returns as Bloc targets an annual return of 20%+, underpinned by strong secular and technology sector trends. Bloc offers a clear sector focus, a structured investment process and an early-stage portfolio with high growth potential, with the strong performance of UK and European private technology companies and the growing maturity of the sector, increasingly drawing in overseas capital and heightening competition for quality companies.

Venture capital

15 December 2021

Portfolio companies

AccelerComm – wireless channel coding
Crypta Labs – quantum encryption
Mindtrace – artificial intelligence
Paytia – cloud-based payment compliance
Pharrowtech – fixed wireless access
Shield-IoT – internet of things
Tether Technology – cloud video security
YellowDog – multi-cloud computing
Yordex – enterprise spend management
Zeetta Networks – software defined networks

Business description

Bloc Ventures is a London-based venture capital company active in the deep tech segments of the UK and European market, focused primarily on cloud, data science, connectivity and security for telecoms and computing applications. Bloc has built a portfolio of 10 investee companies.

Next events

FY21 shareholder update	Q121
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Analysts

Richard Williamson	+44 (0)20 3077 5700
Dan Ridsdale	+44 (0)20 3077 5729

tech@edisongroup.com[Edison profile page](#)

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Bloc Ventures: Visual snapshot

Exhibit 1: Bloc's current portfolio

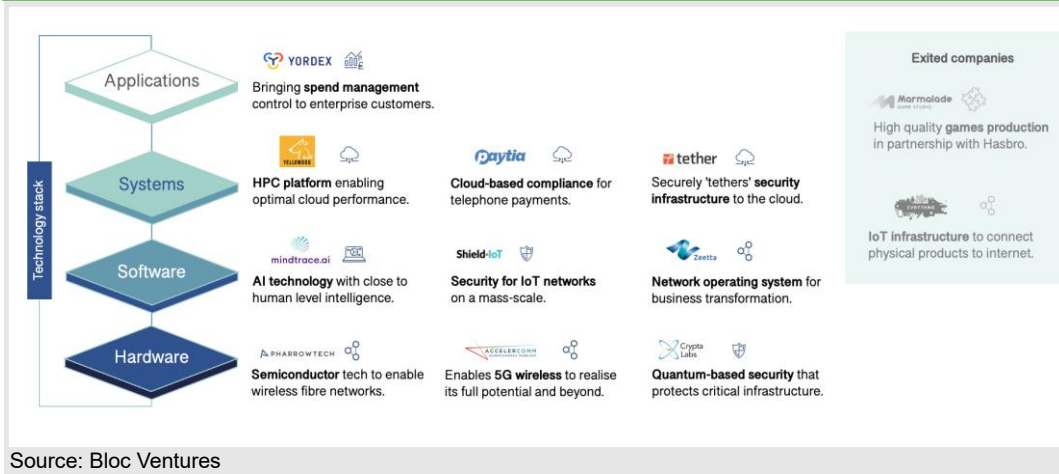
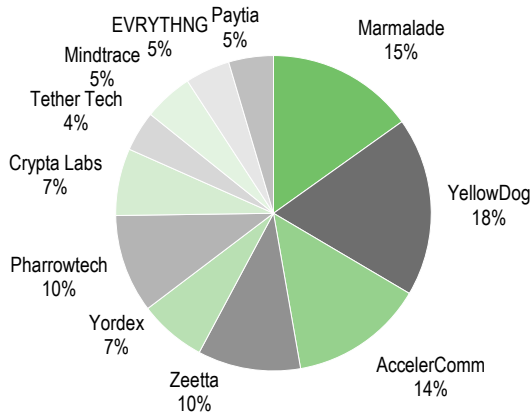
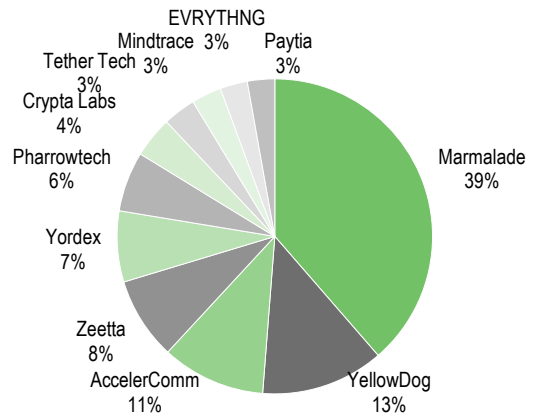


Exhibit 2: H121 portfolio by value invested



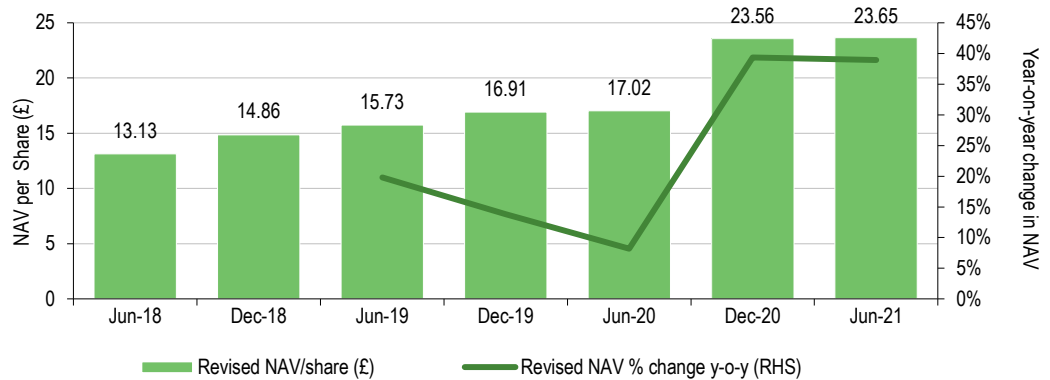
Source: Bloc Ventures

Exhibit 3: H121 portfolio book value



Source: Bloc Ventures

Exhibit 4: Year-on-year growth in NAV per share



Source: Bloc Ventures

Strengthened management team and governance

As at publication, Bloc's team has grown to 10 full-time employees, with the appointments of David Pollington as head of research, Richard Yates as finance manager replacing the outgoing CFO, Andrew Griffin, and Max Neuberger joining as general counsel.

David Pollington, head of research: David leads research as part of the deal flow activities to identify new technology areas of interest and support decision making on investment opportunities in the pipeline. Previously, he was senior technical director at the GSM Association, an industry organisation that represents the interests of mobile network operators worldwide. He holds a Master's in electronic and electrical engineering from Imperial College. The research function is overseen by CTO and co-founder David Leftley, who worked with David Pollington at Vodafone.

Richard Yates, finance manager: as an ex-colleague at the VC-funded SaaS business Condeco Group, Andrew Griffin introduced Richard Yates to take over the finance role at Bloc before Andrew's departure. Richard previously worked as financial controller at MBU Capital, a private equity firm, meaning he has experience of both growth and regulated investment companies. He is a graduate of the University of South Africa in Pretoria and the University of Cape Town, and is a chartered accountant.

Max Neuberger, general counsel: Max joins Bloc from the Virgin Group, where he worked across the group's portfolio of assets, from large corporate transactions to participating in venture and growth capital investments. Max qualified as a solicitor in the corporate division of Herbert Smith Freehills, where he worked for five years, providing advice on public and private M&A and company law matters. Max has an economics and management degree from Oxford University.

In addition to the management team changes, [Andy Green and Sue Prevezer](#) have been appointed to the board as Bloc's first independent non-executive directors, strengthening Bloc's governance and adding further public market director experience. Andy Green CBE (senior independent director) spent 22 years in leadership roles at BT, including as a board member, as well as four years as CEO of Logica and five years as a non-executive director (NED) at ARM. Sue Prevezer QC (independent NED) has over 25 years' commercial and arbitration legal experience, sitting as a deputy high court judge in the Chancery division of the High Court. She is also a NED at S4 Capital.

Portfolio update

After its first significant investment in 2015, when it opportunistically bought a stake in Marmalade, Bloc has since taken stakes in a further 11 companies, largely in the B2B deep tech sector, with four in 2017, two in 2018, two in 2019, one in 2020 and two (to date) in 2021.

Since we initiated in September 2021, Bloc exited two portfolio companies in Q421 at a premium to holding value: [Marmalade](#) (a games developer, sold to LDC for a 4.8x cash return, with Bloc retaining a residual 5% non-dilutive equity stake); and EVERYTHING (an IoT data and real-time insights platform. We do not yet have full details on the transaction, however, as stated in [Digimarc's Q321 financial results call](#), EVERYTHING's purchase price is set at US\$50m upfront in Digimarc equity, with an additional second tranche of up to US\$50m in equity payable in September 2022, based on EVERYTHING delivering annual recurring revenue of US\$10m+ by February 2022, together with other conditions.

Exhibit 5: Marmalade: Bloc's first realisation

£m	Segment	Stage	Initial investment	Cost	Book value Dec-20	FX	Book value Jun-21	Total return*	ROI
Marmalade	Mobile games	Series-B	Jun-15	3.3	13.8	-	13.8	15.7	4.8x

Source: Bloc Ventures. Note: *Includes cash returns and interest.

Bloc has also made a new investment in Shield-IoT. Israel-based Shield-IoT, a leader in large-scale IoT and industrial IoT (IIoT) network cyber security and operational monitoring, has raised US\$7.4m in Series A funding. Bloc and NextLeap Ventures co-led the round, with the participation of Atlas Ventures, Akamai Technologies, Springtide Ventures, DIVEdigital and Janvest Capital Partners.

Founded in 2017, Shield-IoT addresses the proliferation of IoT cyber threats to devices, data, critical services and infrastructure, allowing brands to monitor and secure mass-scale B2B IoT and IIoT networks, reduce operational costs and offer value-added services.

In addition to Bloc's investments and realisations, we would highlight one further operational development of particular note. YellowDog has been working with Amazon Web Services, using its platform to provision millions of cores, to build one of the world's largest virtual supercomputers.

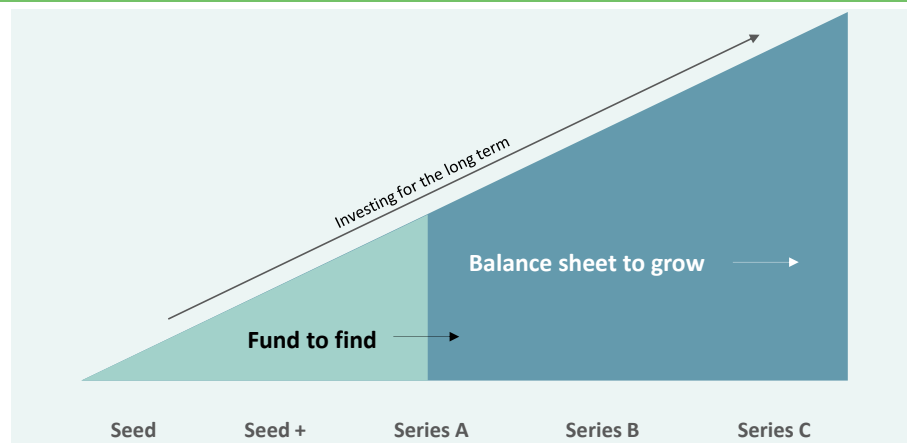
On behalf of biotech firm OMass Therapeutics, [YellowDog](#) spun up 3.2m virtual CPUs (vCPUs) to analyse and screen 337m compounds across data centres in North America and Europe. The run had 1m vCPUs working within seven minutes, 2m within 11 minutes and 3.2m within 33 minutes. The result allowed OMass Therapeutics to analyse compounds in seven hours that would have taken two months on the company's on-premise supercomputer.

This is a landmark capability statement for Yellowdog, which was recently recognised as 'Multi Cloud Solution of the Year' at the [Computing.co.uk Cloud Excellence Awards 2021](#).

Launching its multi-stage investment strategy

Bloc is looking to raise an investment fund (deeptech_one) to back early-stage UK deep tech companies, investing at seed and seed+ stages, as part of a multi-stage investment strategy. Bloc's balance sheet will then provide the growth capital at Series A and beyond to ensure the group can continue to invest in promising companies for longer, while retaining a meaningful equity stake in the companies it has backed.

Exhibit 6: Rationale behind Bloc's multi-stage investment strategy



Source: Bloc Ventures

Exhibit 7: Differentiated but complementary funds

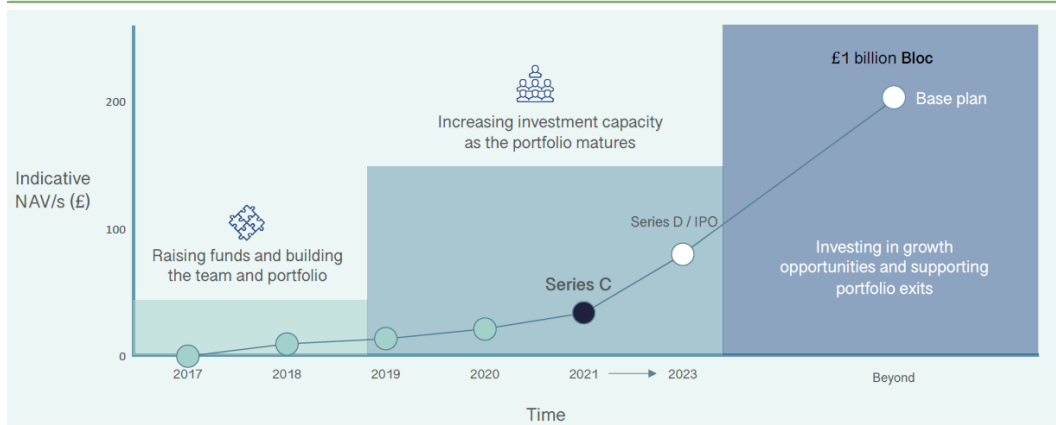
	deeptech_one investment fund	Bloc B/S, supported by the Series C funding round
Entry point	Seed or Seed +	Series A
Deal volume	10 per year	2-4 investments per year
Initial investment	£0.35-3.0m	£1.0-5.0m
Target equity ownership	20%	20%+
Expected average life-time investment	£3.25m	£10m

Source: Bloc Ventures

This strategy offers different propositions to potential investors across the early-stage deep tech spectrum, allowing investors to choose their preferred investment profile and structure. It is also worth noting that deep tech is increasingly seen as a strategic resource that the UK government wants to support, attracting non-dilutive government funding from, for example, Innovate UK, Future Fund and the British Business Bank.

Alongside ongoing portfolio investment, Bloc has begun its Series C funding round to enable it to continue to invest in existing portfolio companies and allow for new UK and European deep tech investments over 2022–23. Together with deeptech_one, the Series C fund raise is a key step on Bloc's journey to achieving a £1bn valuation, as part of a multi-stage investment strategy (Exhibit 8).

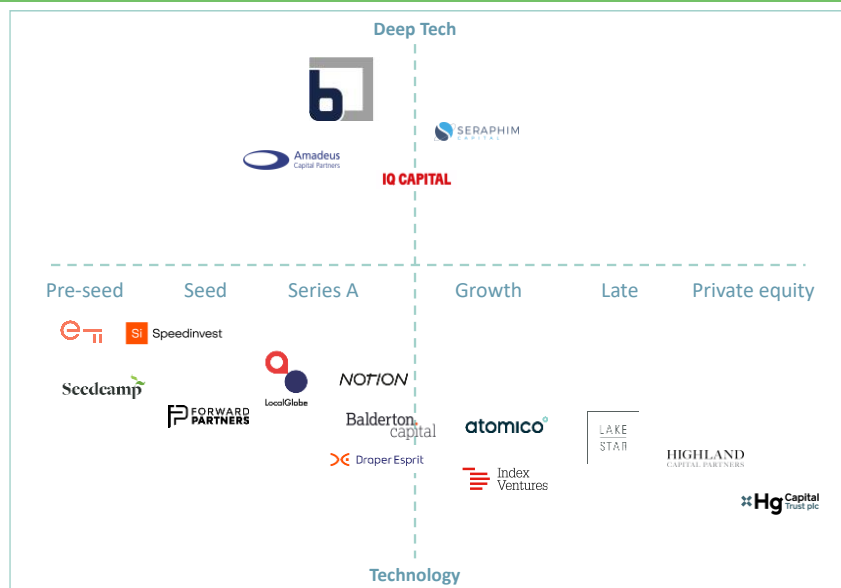
Exhibit 8: Journey for the £1bn Bloc



Source: Bloc Ventures

Bloc is a specialist in UK and European deep tech, focused primarily on cloud, connectivity, data science and security for telecoms and computing applications. As an early-stage investment company, the key metrics to consider when assessing Bloc are NAV per share, cash available for investment and portfolio progress against milestones (including funding rounds and realisations) as an indicator of future appreciation in NAV per share.

Exhibit 9: One of the few pure deep tech venture investors in Europe



Source: Bloc Ventures

H121 results

Bloc reported a NAV per share of £23.65 in H121, up 39% year-on-year but largely unchanged from H220, with an up-round for Yordex and further investments in Zeetta and Tether Technology and the initial investment in Mindtrace.

Exhibit 10: H121 NAV				Exhibit 11: H121 P&L and cash flow			
£m unless specified	H120	FY20	H121	Income statement (£m)	Jun-20	FY20	Jun-21
NAV per ordinary share (£)	17.02	23.56	23.65	Board fees and other revenue	0.1	0.2	0.1
change y-o-y	8%	39%	39%	Operating costs	(0.5)	(1.4)	(0.7)
Portfolio book value (start of period)	17.4	17.4	32.5	Operating loss	(0.4)	(1.1)	(0.6)
Book value increase	-	8.9	0.5	Investment income	0.3	9.3	0.7
FX revaluation	0.2	-	(0.1)	Other financial income/expense	-	-	-
Gross investments	4.5	7.7	2.8	Net profit	(0.1)	8.2	0.1
Cash realisations	-	(1.5)	-	Cash flow and use of funds (£m)	Jun-20	FY20	Jun-21
Portfolio book value (end of period)	22.1	32.5	35.7	Outgoings:			
change y-o-y	36%	87%	62%	Investments	(4.5)	(7.7)	(2.3)
NAV	22.8	37.4	38.0	Op and funding costs	(0.8)	(1.7)	(0.9)
of which cash	0.5	4.5	1.9	Funded by:			
Equity raised in period	0.8	7.1	0.5	Funding	0.9	7.4	0.5
Op costs net of fee income	(0.4)	(1.1)	(0.6)	Exits and interest	0.2	1.8	0.1
annualised as % of NAV	3.5%	2.9%	3.2%	Net cash flow	(4.2)	(0.2)	(2.7)
Source: Bloc Ventures.				Cash at end of period	0.5	4.5	1.9
				Source: Bloc Ventures			

Operating costs (net of fee income) decreased year-on-year to 3.2% of NAV in H121 (H120: 3.5%), although costs as a proportion of NAV increased on FY20 (2.9%) as the company invested in its team. Team size increased from eight members at the end of FY20 to 10 as at 30 November 2021 (post period end). Operating costs as a percentage of NAV is expected to fall in future periods as Bloc closes its Series C funding round and the NAV increases.

Bloc's income statement (Exhibit 11) shows that the principal source of revenue comes from board fees chargeable to portfolio companies.

In terms of cash, Bloc committed £2.3m to investments in H121 (FY20: £7.7m) (Exhibit 11), a slowdown ahead of the expected exit from Marmalade. Net cash at the end of H121 amounted to £1.9m (FY20: £4.5m), although post the period end, this has been supplemented by an initial cash consideration of £9.3m from the sale of Marmalade. As an all-share transaction, Bloc received shares in Digimarc for the sale of EVERYTHING and the transaction did not add to Bloc's cash resources. In addition, Bloc has launched its Series C funding round to ensure that it can continue to invest in two to four companies per year off the balance sheet. There were no exits or realisations in the period.

Exhibit 12: Balance sheet			
£m	H120	FY20	H121
Portfolio	22.1	32.5	35.7
Cash	0.5	4.5	1.9
Other net assets/liabilities	0.3	0.4	0.4
Net asset value	22.8	37.4	38.0
Source: Bloc Ventures.			

NAV comprises the book value of the portfolio (driven by latest funding rounds), together with cash at the period end. A 10% increase in the value of the portfolio in H121 to £35.7m (FY20: £32.5m) as a result of investments in Zeetta, Yordex, Tether Technology and Mindtrace was largely offset by the corresponding fall in cash to £1.9m (FY20: £4.5m), as Yordex was the only up-round in the period.

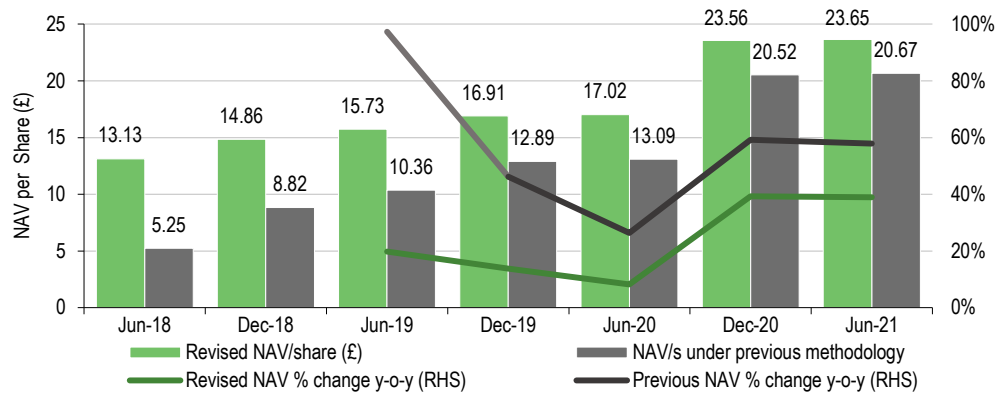
Revised NAV per share methodology

Bloc has revised its core NAV per share methodology so that, in future, the NAV per share premium is what an IPO investor would calculate, based on Bloc's latest share price.

As detailed in our [initiation](#), Bloc's capital structure includes £8.4m of debt-like A-ordinary preference share capital, with a value of £25 per A-ordinary share. The revised methodology assumes these A-ordinary preference shares are converted to ordinary shares. Previously Bloc also included employee growth shares in the calculation for NAV per share, even though the growth share profit hurdle had not been achieved. Bloc will now only include 'in the money' growth shares (ie it will exclude 'out-of-the-money' growth shares from its calculation).

Together, the impact of these changes is set out in Exhibit 13 below.

Exhibit 13: NAV per share calculations – revised versus previous calculations



Source: Bloc Ventures

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia