

# Allied Minds

## HawkEye 360 piercing the clouds

HawkEye 360, one of Allied Minds' principal portfolio companies, has announced a Series B funding round with new investors, Airbus and Esri, investing alongside Allied Minds and existing investors. The round was struck at a pre-money valuation of \$200m (c 122% uplift in headline value), raising \$70m of capital in two equal tranches, the second with certain conditions precedent. After Allied Minds' recent portfolio downgrades, this highlights the material embedded value in its remaining investments. By our calculation, the round represents a \$27–44m uplift in fair value for Allied Minds, or 9–15p per share. The shares now trade at a 41% discount to our adjusted estimate of FY18 NAV of a minimum of 103.5p.

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	0.41
06/18	350.1	66.0	416.1	132.4	0.46
12/18*	226.7	50.6	277.3	94.2	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.

## HawkEye 360 Series B funding round

Allied Minds today confirmed that one of its principal portfolio companies, HawkEye 360, has announced a Series B funding round with major strategic investors, Airbus Industries and Esri (an international supplier of mapping software), investing alongside Allied Minds and existing investors, Razor's Edge Ventures and Shield Capital Partners. The round was struck at a pre-money valuation of \$200m, raising \$70m of capital in two equal tranches. Allied Minds invested \$5m in the initial tranche, with the second tranche subject to conditions including approval by the Committee on Foreign Investments in the United States.

## Use of proceeds

HawkEye 360 has already launched and deployed its first satellite cluster (now operational) and the previous A-3 funding round allowed it to fabricate and launch a second cluster. As well as cementing a partnership with Airbus (providing exceptional access to distribution in European markets) and Esri, this latest round supports fabrication and launch of a further four satellite clusters, forming a fully operational constellation of 18 satellites with rapid global revisit.

## Valuation: Material 41% discount to a rising NAV

Despite Allied Minds' limited cash resources (FY18: \$50.6m), management's stated intention has been to ensure it retains the strategic flexibility to participate in major funding rounds like this to maximise shareholder value in the medium term. This funding round goes some way to validate that strategy. By our calculation, the round represents a \$27–44m uplift in fair value for Allied Minds, or 9–15p per share. The company's shares now trade at a 41% discount to our adjusted estimate of FY18 NAV of a minimum of 103.5p.

Investee funding round

Investment companies

6 August 2019

Price **61p**

Market cap **£147m**

US\$1.22/£

Parent cash (\$m) 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 (12.0) (1.5) (23.4)

Rel (local) (10.2) (1.7) (21.1)

52-week high/low 87p 37p

### 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 19 September 2019

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## April 2019 strategic review

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Following the portfolio rationalisation over 2017/18 to focus the business on its principal portfolio companies, together with the cash management measures announced in February 2019, management enacted further measures in April 2019 to deliver value creation:

- Focus remaining cash resources on key assets in the current portfolio.
- New investment on indefinite hold.
- Further cuts to central costs (to reduce opex to \$5–6m pa).

Together, these measures are intended to give Allied Minds the best opportunity to deliver on the promise of its investment model, without further recourse to the financial markets, to maximise shareholder returns over the medium term.

## Looking ahead to commercialisation

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As we reiterated in our previous note, [CEO steps down](#), Allied Minds has set out clear milestones in 2019 for its three most promising assets (HawkEye 360 – multiple product launches, funding, Federated Wireless – FCC approval, funding and Spin Memory – foundry contracts).

With the funding round for HawkEye 360 now successfully announced, we are hopeful that 2019 will start to deliver a reversal in sentiment.

## Background on HawkEye 360

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HawkEye 360 is a Radio Frequency (RF) data analytics company. It operates a first-of-its-kind commercial satellite constellation to identify, process and geolocate a broad set of RF signals. It extracts value from these data through proprietary algorithms, creating analytical products for global customers. Products include maritime domain awareness and spectrum mapping and monitoring; customers include a wide range of commercial, government and international entities. A more detailed review of its business can be found in our initiation note, [Portfolio rebased for growth](#).

### Exhibit 1: Hawkeye 360 – 2019 key operational management objectives

- Successfully launch core analytic products in the Spectrum Awareness product line, **RFGeo**, RF Survey and Emitter Data Base.
- Complete development of next cluster and ready for launch.
- Commence development of follow-on clusters two, three and four, for launch in 2020.

Source: Allied Minds

- **27 June 2019: Robert Cardillo has joined advisory board.** Cardillo is the former director of the National Geospatial-Intelligence Agency (NGA), and a highly experienced national security professional and geospatial expert. Prior to the NGA, he served as the first deputy director for intelligence integration at the Office of the Director of National Intelligence, where he was responsible for delivering the President's Daily Brief, and overseeing the National Intelligence Council and the National Intelligence Managers.
- **22 May 2019: HawkEye 360 and Windward partner to provide deeper insights and better visibility on vessel behaviour.** Combining unique RF analytics with a powerful maritime platform promises significant improvements for global maritime domain awareness. 'HawkEye 360 and Windward, a world leader in maritime risk analytics, have partnered to offer new global insights into maritime domain awareness through their combined capabilities. HawkEye 360 will

contribute its unique RF dataset for use on Windward's digital platform with select customers.' (source: [www.he360.com](http://www.he360.com))

- 7 May 2019: Chris Herndon joins HawkEye 360 as CIO.** Former director of White House Information Technology brings extensive cybersecurity and policy expertise. 'HawkEye 360 today announced that Chris Herndon has joined the company as CIO. Herndon brings more than 30 years of experience in building advanced information technology systems. Most recently, Herndon served in the Trump Administration as the White House deputy assistant to the president and the director of White House Information Technology, where he created the White House IT strategic plan and transformed enterprise services across all 12 components of the Executive Office of the president.' (source: [www.he360.com](http://www.he360.com))
- 4 April 2019: HawkEye 360 launches first commercial product – RFGeo.** RF signal mapping reveals new patterns of life. 'HawkEye 360 announced that it has launched RFGeo, a first-of-its-kind RF signal mapping product. RFGeo uses the unique data generated by the HawkEye Constellation of space-based RF sensing satellites to identify and geolocate RF signals, providing a new global geospatial data layer. RFGeo is the company's first commercially available product.' (source: [www.he360.com](http://www.he360.com))

## Valuation: Material 41% discount to a rising NAV

By our calculation, the HawkEye 360 funding round represents a \$27–44m uplift in fair value for Allied Minds (9–15p per share), depending on the dilution of Allied Minds' stake. The shares now trade at a 41% discount to our adjusted estimate of FY18 NAV of a minimum of 103.5p.

**Exhibit 2: Fair value impact of HawkEye 360 funding round**

	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 NAV/share (p)
Allied Mind stake - undiluted	43.4	5.0	44.2	92.6	34.3%	15.0
Allied Mind stake - fully-diluted				75.7	28.0%	9.3

Source: Allied Minds, Edison Investment Research. Note: Expected ownership by ALM after completion of second tranche of funding.

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

Allied Minds' shares trade at a 41% discount to our adjusted estimate of FY18 NAV of a minimum of 103.5p (Exhibit 3).

**Exhibit 3: Peer group comparison**

	Price	Currency	Market cap (m)	NAV (m) (last reported)	Cash/ (debt) (m)	NAV premium/ discount	NAV per share (p)
Allied Minds	61.0	GBP	147.2	227	41	0.65	94
<i>Adjusted for HawkEye 360 funding round</i>				250		0.59	103
Arix Bioscience	124.5	GBP	168.8	270	91	0.63	200
IP Group	61.7	GBP	653.5	1218	219	0.54	115
Malin Corporation	3.30	€	150.7	392	(12)	0.38	8.57
Mercia Asset Management	34.4	GBP	104.3	125	38	0.83	41
HgCapital	206	GBP	829.4	802	97	0.96	215
Oakley Capital	234	GBP	479.2	645	212	0.74	316
Draper Esprit	478	GBP	563.7	619	100	0.91	524
Augmentum FinTech	111.5	GBP	130.5	103	26	1.27	110

Source: Refinitiv data; Edison Investment Research. Note: Priced at 5 August 2019.

**Exhibit 4: Financial summary**

	\$'000s	2014	2015	2016	2017	2018
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
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	N/A	N/A	N/A	49.2
Normalised Operating Margin		N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>						
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
<b>CASH FLOW</b>						
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, Edison Investment Research. Note: \*For clarity, cash at parent has been broken out as a separate line item from cash & cash equivalents. As a line item, it does not form part of the calculation for current assets.

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