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Ahead of the maiden annual report

Augmentum Fintech (AUGM) will publish its first full-year report on 11 June 2019. Since its IPO on 13 March 2018, the company has deployed its capital successfully and is now 73% invested with £15m of cash earmarked for follow-on opportunities within existing portfolio companies. In 2019, the company has made four additional investments, a £7.5m investment in SME lender iwoca and a £4.0m investment in legal services platform Farewill as well as a £4m investment in Onfindo and a £0.9m investment in Intellis.

As at the last NAV on 30 September 2018, the unrealised annualised IRR on the seed portfolio of 30% was well in excess of the long-term IRR target of 20%, with a 5% uplift in NAV since the IPO. Furthermore, the shares of the company are currently trading at a 4.8% premium to NAV, reflecting the strong investor demand for the company and its future growth opportunities.¹

We share this optimism about the future growth opportunities for AUGM since the fintech boom continues unabated and traditional financial services companies are increasingly competing in the space to avert the challenge from disruptive start-up

companies. This provides a fertile environment for experienced investors who can select the most attractive deals and benefit from long-term increases in deal sizes and valuations.

The existing portfolio of companies is well-positioned to benefit from these trends and we expect to see strong growth in these companies. On top of that, we think the time is ripe for AUGM to deploy further capital and grow its investment portfolio, and even raise additional capital in order to take advantage of the anticipated acceleration in deal volume and deal sizes. The annual results should bring some more clarity about the company's path forward and growth ambitions.

For now, we leave our valuation assumptions unchanged and provide the detailed scenario analysis for each of the existing portfolio companies in the appendix as reference. We will model Onfindo, Intellis, iwoca and Farewill in our upcoming comprehensive company update after the annual results have been released. Our sum-of-the-parts valuation scenario for the investment portfolio with the four investments of 2019 included at cost is given in Fig. 1.

Fig 1: Valuation scenarios for AUGM

	Optimistic case	Base case	Pessimistic case
Cash holdings	£32.4m	£32.4m	£32.4m
Current investments	£183.0m	£99.5m	£57.4m
Total	£215.4m	£131.9m	£89.9m
Uplift on AUGM NAV	120.2%	34.9%	-8.2%
Share NAV in pps	229.0	140.3	95.5

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

¹ Past performance is not a reliable indicator of future outcomes.

SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Largest portfolio holding, Zopa, is on a growth trajectory that may lead to additional valuation expansion in the near-term, as do Monese, Tide and Interactive Investor. ▪ The management team, together with the advisory panel, has extensive experience making fintech/venture capital investments and creating value at the invested companies. ▪ The management team has strong relationships within the industry and is close to the management of companies seeking venture capital funding. ▪ AUGM's investment objective and policy allows it to target early stage fintech opportunities, potentially exploiting the best risk-adjusted opportunities. ▪ Augmentum Capital has a good track record running its first fintech fund, as detailed in our last company note. ▪ AUGM has strong backing from the management team and the advisory panel, providing alignment with shareholders. ▪ The investment trust structure, with its 'permanent capital' attribute, is better suited to the invested companies' needs than the more common GP/LP structure, because early stage companies can stay 'private for longer'. ▪ AUGM follows a growth strategy in one of the few genuine growth sectors. 	<ul style="list-style-type: none"> ▪ One large investment, Zopa (22.5% of the latest NAV), is expected to drive NAV performance in the near term. ▪ Relatively large exposure to cash (currently around 27% of the NAV) in the early stages of the company's life is having a dampening effect on NAV performance. ▪ Limited liquidity in the trading of AUGM's shares due to relatively low market capitalisation.
Opportunities	Threats
<ul style="list-style-type: none"> ▪ As the only listed investment company investing solely in fintech, AUGM has first mover advantage and may potentially be able to capture the best opportunities. ▪ Well-developed pipeline of investment opportunities, in a range of diversifying sectors, gives confidence that further investments will be made such that AUGM will be substantially deployed by mid-2019. ▪ Fintech is still a nascent trend with significant opportunity to grow. The UK market is at the heart of this opportunity and starved for permanent capital so private companies can stay private for longer. 	<ul style="list-style-type: none"> ▪ Potential over-crowding in the fintech sector over time, leading to increased competition and pricing, making new investments more difficult while maintaining a disciplined investment approach. ▪ Current expectations of future growth of fintech companies, for example in terms of market share, are not met.

European fintech opportunity persists

The boom in fintech investments remains intact. While 2018 saw a decline in the number of transactions compared to 2017, both globally and in the UK, the amount of capital invested continues to grow. 2018 saw the world’s largest Fintech capital raise in history with Ant Financial raising \$14bn, accounting for roughly 40% of all the money raised globally in the space. But even if we exclude this extraordinary event, the capital raised in Fintech in 2018 surpassed the 2015 record by more than \$1bn.

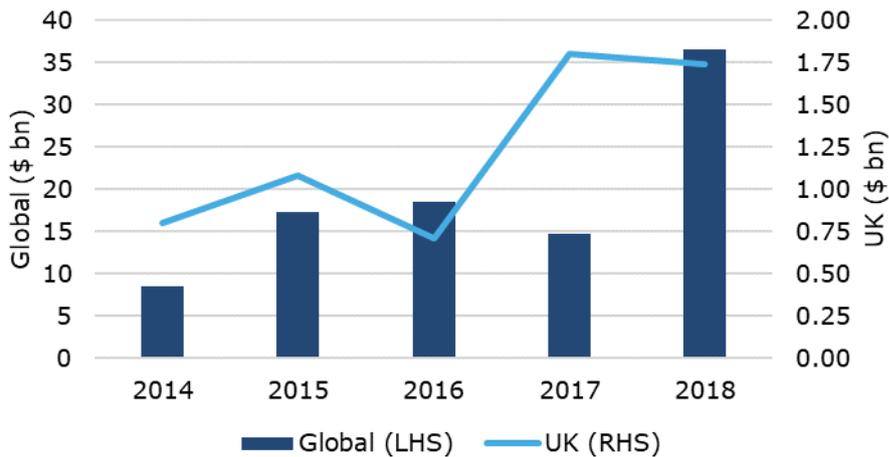
Fundraising in the UK in 2018 was slightly lower than in 2017, with a total of \$1.7bn invested in 2018. But this still means that the UK market remains the world’s third largest market for Fintech venture capital (after the US and China). In Europe, the UK Fintech universe has a dominant position, with five times as many fintech deals closed in the UK than in Germany or France and more than twice as much money raised in the UK than in Germany. Out of the fifteen largest VC deals in Europe last year, nine took place in the UK, with the \$78m capital

raise of AUGM portfolio company Zopa and the \$60m capital raise of Monese amongst them.

According to the 2018 FinTech VC Investment Landscape report issued by Innovate Finance, the decline in 2018 in UK VC investments was due to a 9% decline in early-stage VC and a 7% decline in late-stage venture capital. This means that the financing gap for VC that AUGM has identified and is at the heart of the company’s strategy has, if anything, widened in 2018. Thus, the opportunity set for the investment strategy of AUGM is, in our view, larger today than a year ago, which should bode well for future deals and may lead to IRRs in excess of the long-term target of 20%.

We continue to believe that AUGM provides one of the best-positioned listed investment companies in the UK, with strong growth opportunities in the medium term and attractive short-term triggers for further NAV appreciation.

Fig 2: Fintech VC capital raised



Source: Innovate Finance, Fidante Capital.

Appendix: Valuation of portfolio companies

The valuation assumptions and scenarios for the portfolio companies as at 30 September 2018 of AUGM remain unchanged.

The following tables list these valuations scenarios for each of the portfolio companies from largest to smallest holding.

Fig 3: Valuation scenarios for Zopa

	Optimistic case	Base case	Pessimistic case
Current valuation	£22.0m	£22.0m	£22.0m
Earnings growth years 1 to 3	33.0%	27.5%	22.0%
Terminal growth after year 10	14.3%	10.3%	3.8%
Ending valuation	£73.2m	£40.7m	£20.8m
Multiple on current valuation	3.3x	1.8x	0.9x
Upside	233%	85%	-5%
Uplift on AUGM NAV	52.3%	19.1%	-1.2%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 4: Valuation scenarios for BullionVault

	Optimistic case	Base case	Pessimistic case
Current valuation	£8.4m	£8.4m	£8.4m
Book value growth over next 3 years per annum	25.0%	12.5%	7.5%
Ending PB-ratio	3.0	2.4	2.0
Ending valuation	£20.9m	£12.2m	£8.9m
Multiple on current valuation	2.4x	1.4x	1.0x
Upside	144%	42%	4%
Uplift on AUGM NAV	12.8%	3.8%	0.3%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 5: Valuation scenarios for Monese

	Optimistic case	Base case	Pessimistic case
Current valuation	£5.9m	£5.9m	£5.9m
Earnings growth years 1 to 3	20.0%	10.0%	0.0%
Terminal growth after year 10	15.0%	10.0%	5.0%
Ending valuation	£16.0m	£6.9m	£3.0m
Multiple on current valuation	2.7x	1.2x	0.5x
Upside	172%	17%	-49%
Uplift on AUGM NAV	10.3%	1.0%	-3.0%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 6: Valuation scenarios for Interactive Investor

	Optimistic case	Base case	Pessimistic case
Current valuation	£4.7m	£4.7m	£4.7m
Earnings growth years 1 to 3	45.0%	40.0%	35.0%
Terminal growth after year 10	31.6%	22.0%	14.5%
Ending valuation	£11.4m	£5.4m	£2.7m
Multiple on current valuation	2.4x	1.2x	0.6x
Upside	143%	16%	-43%
Uplift on AUGM NAV	6.8%	0.8%	-2.1%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 7: Valuation scenarios for Tide

	Optimistic case	Base case	Pessimistic case
Current valuation	£3.0m	£3.0m	£3.0m
Earnings growth years 1 to 3	20.0%	10.0%	0.0%
Terminal growth after year 10	15.0%	10.0%	5.0%
Ending valuation	£15.2m	£6.6m	£3.0m
Multiple on current valuation	5.1x	2.2x	1.0x
Upside	407%	120%	0%
Uplift on AUGM NAV	12.5%	3.7%	0.0%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 8: Valuation scenarios for Unmortgage

	Optimistic case	Base case	Pessimistic case
Current valuation	£2.5m	£2.5m	£2.5m
Earnings growth years 1 to 3	40.0%	30.0%	20.0%
Terminal growth after year 10	15.0%	10.0%	5.0%
Ending valuation	£7.3m	£3.2m	£1.4m
Multiple on current valuation	2.9x	1.3x	0.6x
Upside	193%	29%	-44%
Uplift on AUGM NAV	4.9%	0.8%	-1.1%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 9: Valuation scenarios for Previser

	Optimistic case	Base case	Pessimistic case
Current valuation	£2.0m	£2.0m	£2.0m
Earnings growth years 1 to 3	40.0%	30.0%	20.0%
Terminal growth after year 10	15.0%	10.0%	5.0%
Ending valuation	£8.5m	£3.8m	£1.7m
Multiple on current valuation	4.3x	1.9x	0.8x
Upside	327%	89%	-18%
Uplift on AUGM NAV	6.7%	1.8%	-0.4%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 10: Valuation scenarios for DueDil

	Optimistic case	Base case	Pessimistic case
Current valuation	£2.0m	£2.0m	£2.0m
Earnings growth years 1 to 3	20.0%	10.0%	0.0%
Terminal growth after year 10	15.0%	10.0%	5.0%
Ending valuation	£8.6m	£3.7m	£1.6m
Multiple on current valuation	4.3x	1.8x	0.8x
Upside	327%	83%	-20%
Uplift on AUGM NAV	6.7%	1.7%	-0.4%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 11: Valuation scenarios for Seedrs

	Optimistic case	Base case	Pessimistic case
Current valuation	£1.9m	£1.9m	£1.9m
Earnings growth years 1 to 3	40.0%	30.0%	20.0%
Terminal growth after year 10	15.0%	10.0%	5.0%
Ending valuation	£4.9m	£2.2m	£0.9m
Multiple on current valuation	2.6x	1.1x	0.5x
Upside	157%	14%	-51%
Uplift on AUGM NAV	3.0%	0.3%	-1.0%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

Fig 12: Valuation scenarios for SRL Global

	Optimistic case	Base case	Pessimistic case
Current valuation	£1.5m	£1.5m	£1.5m
Earnings growth years 1 to 3	25.0%	20.0%	15.0%
Terminal growth after year 10	13.5%	12.2%	10.3%
Ending valuation	£5.4m	£3.4m	£2.0m
Multiple on current valuation	3.6x	2.3x	1.3x
Upside	263%	125%	34%
Uplift on AUGM NAV	4.0%	1.9%	0.5%

Source: Fidante Capital. Forecasts are subject to estimation errors and may deviate significantly from the performance shown.

The company in brief

Fig 13: Key attributes

Attribute	
Company name	Augmentum Fintech plc
Sector	Private equity - single manager specialist
Listing	LSE (premium segment of the main market)
Admission	13 March 2018
Domicile	Incorporated in England and Wales
Share class	GBP
Management	AUGM is internally managed with Augmentum Fintech Management, a wholly owned subsidiary of the company with the same employees as Augmentum Capital, appointed as the portfolio manager; independent non-executive board
Investment strategy	To invest in fast growing and/or high potential fintech businesses based predominantly in the UK and wider Europe
Investment objective	To generate capital growth over the long-term
Projected performance	Management track record in fintech: gross IRR of 20% from 2010 to 2017
Dividends/capital distributions	None
Capital returns	Will return annually up to 50% of the realised gains from disposals; may return capital if available cash is not expected to be substantially deployed within 12-18 months
Gearing	None for investment purposes
Fees	1.5% of NAV per annum (1.0% per annum for net assets over £250m). Carried interest: 15% of net realised profits, subject to a minimum IRR of 10%, with catch-up
Reporting	March year end; September interim results; semi-annual NAVs
Discount management	Share buybacks up to 14.99% of issued share capital; if NAV less than 70pps, board will consult shareholders and carry out a strategic review
Life	Unlimited
Board	Neil England (Chairman), Karen Brade, David Haysey; all board members are independent and non-executive
Website	www.augmentumfintech.com

Source: Fidante Capital, Company.

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