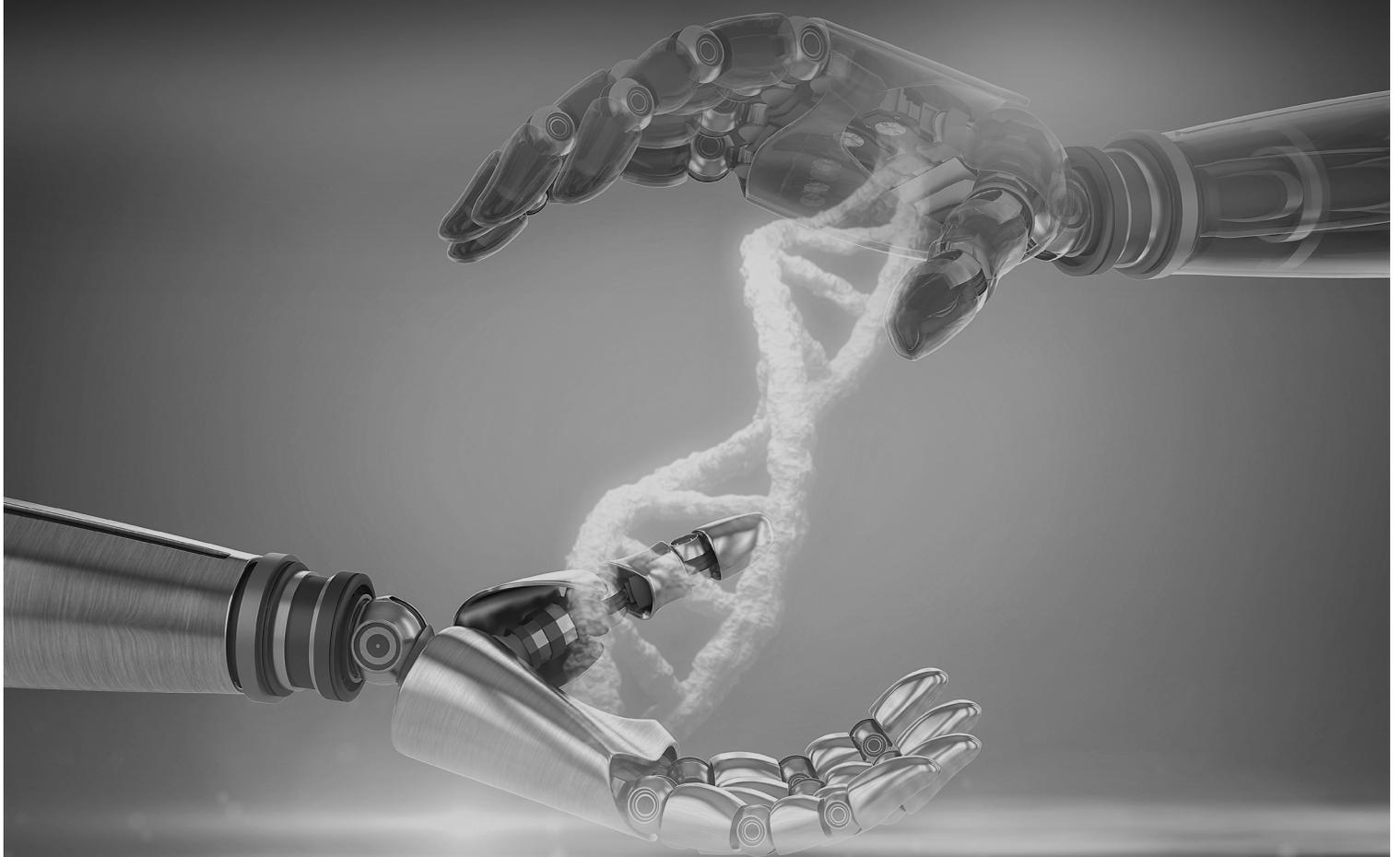




# Emerging Stocks Down Under

🗨️ *The four most dangerous words in investing are:  
"It's different this time".* 🗨️

- Sir John Templeton (1912-2008), fund manager and philanthropist



## **BAILADOR**

Is venture capital a refuge from the tech crunch?

# BAILADOR

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Stocks Down Under rating: ★★

ASX: BTI  
Market cap: A\$188.6M

52-week range: A\$1.14 / A\$1.88  
Share price: A\$1.31

Bailador stands out among ASX tech stocks in being a venture capital (VC) fund. It invests funds in companies beyond the start-up phase that are looking to expand. Bailador hopes to eventually exit at a significant premium. The main positive for investors are that many of Bailador's companies are private and consequently are not exposed to broader market volatility. Unfortunately, Bailador's own share price has not been able to escape the tech crunch itself.

## Share price chart



Source: Tradingview

## A track record of successful investment

Bailador began in 2010 and listed on the ASX in November 2014 at \$1 per share. It was co-founded by former All Blacks captain David Kirk and private equity investor Paul Wilson. As we mentioned, the company is selective about its investments, steering clear of pre-revenue start-ups and although it doesn't appear to have a limit on the number of companies, it doesn't appear to have more than a dozen companies at any one time. It also values its portfolio conservatively to provide material upside on one hand, but has a built in buffer on the other if market multiples on exit fail.

Before Bailador's ASX listing it invested in Standard Media Index, a big data aggregator, and SiteMinder, a SaaS company for hotel management – [which we covered back in January](#). Last year, SiteMinder became ASX listed in its own right and Bailador retains a 6.2% stake. Although Bailador sold down some shares at IPO and in a previous fundraising round, its IPO valuation represented an IRR of 44% and a multiple of investment cost of nearly 23x its original investment.

Since Bailador's listing it has made further investments, with the biggest of these being Straker Translations (ASX: STG). It first invested in the second half of 2015, three years before Straker listed. At the time of Straker's listing it owned just over 20% of the company, but sold a minority stake representing a 276% return. In 2019 it sold further shares before buying back shares in a 2021 capital raising. It owns 6.4m shares, representing a stake of ~11.8%. It has made private investments too with the most notable being Instacluster. The latter is set to be acquired in the coming months by NASDAQ-listed data software company NetApp (NDQ: NTAP), which will see a \$118m windfall.

## **A tech company that's profitable and pays dividends, but trades at a 30% NTA discount**

Thanks to its investment successes, Bailador's results have improved over time. The company paid its inaugural dividend in FY20 at 2.5 cents a share, thanks to the proceeds from its SiteMinder and Straker sales and implemented a dividend reinvestment plan (DRP) which was well supported. Unfortunately, it made a net loss of \$4.1m.

In FY21, it made a net profit of \$27.6m and its Net Tangible Assets (NTA) grew 23% to \$1.53. It paid another dividend in FY21 of just 1.4 cents a share, but again this was a "special dividend", indicating investors shouldn't become too used to it. Furthermore, it represented a yield of just 1% on BTI shares at the time. In 1HY22, it made a net profit of \$35.7m - up 172% from 1HY21 - and its gain on financial assets and marketable securities grew 178% to \$65.2m, driven by the IPO of SiteMinder and uplifts in the valuation of Instaclub.

Bailador's NTA grew another 22% to \$1.87, which means the company is currently trading at a 30% discount. At a market cap of \$184.7m, it is trading at a 40% discount to its total marketable securities and financial assets, which were \$259.1m as at 31 December 2021. The Instaclub deal will add \$313.7m onto that and with SiteMinder, Straker and Instaclub valued at \$113.0m, \$14.2m and \$118m respectively, you are getting everything else (half a dozen other private investment) for free. The three biggest, valued at over \$11.4m each, include telehealth platform Access Telehealth, Standard Media Index and e-commerce personalisation firm Nosto.

## **But it's been hit by the tech sell-off and the worst may not be over**

Unfortunately, Bailador shares have not escaped the tech crunch, dropping by 28% since mid-November - roughly in line with the ASX All Technology Index. You could argue shares will just rebound when the tech sector does and then it will outperform given its focus on more advanced, revenue generating companies. But once the Instaclub deal is closed, the portfolio will be heavily skewed to its SiteMinder stake, which is exposed to the public markets.

Even though a devaluation in Bailador's private assets may not impact its valuation significantly - since you are getting them for free given the NTA discount - we are concerned about broader market sentiment. We have concerns that the tech sell-off could still flow through to the tech VC sector. There are only limited warning signs, such as the decrease in the value of Australia's biggest unicorn Canva by one of its major investors - Franklin Templeton's Growth Opportunities Fund. But auditing season is approaching in Australia and we wouldn't be surprised to see an impact to the valuation of private tech companies. This could affect the venture capital market, limiting future investing opportunities and the growth potential of existing assets.

We acknowledge Bailador directors have been buying on market in the last month. Paul Wilson and David Kirk bought \$500,000 each and Brodie Arnhold bought just over \$48,000. Evidently, they think the share price has gone down too much and will re-bound. Ultimately, we think even if the share price should re-rate, in the current bear market for tech companies, we're not confident it will happen. So, it's two stars for the time being. But when the market turns, we think this could be one of the first companies to rebound.

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