ShareSoc London Seminar Report 2017-02-08

Here are some brief notes on the Growth Company Seminar on the 8th February where Orchard Funding, Cerillion, Ilika, and Albion Ventures presented. I will concentrate on only the key points of the speakers presentations and the questions/answers so these notes should be read in conjunction with the presentations slides that are also on the ShareSoc Members Network. Not all questions are reported. Mark Northway chaired the meeting and gave a short initial talk on ShareSoc's recent activities.

Orchard Funding - Speaker Ravi Takhar, CEO

Orchard are engaged in professional fee funding and insurance premium financing. The CEO founded the company in 2002, and it floated in 2015. He said they were a "scalable" company with very conservative lending policies. All lending is guaranteed by the introducing brokers or accountants. It has a £23 million asset book with £10 million of debt. They lend £50 to £60 million per year.

Orchard is funded by equity and by banks, e.g. Barclays and RBS. They also have peer-to-peer lending which raises capital from retail markets. To expand their business there are possible deals with insurance companies to finance their client premiums. They are also talking to the PRA about a banking licence.

They are third placed in the market for such finance (Premium Credit is the market leader).

Question 1: What has stopped you growing? What are the main barriers to growth?

Answer: the FCA have been slow in granting consumer lending permissions, but this is changing.

Question 2: Isn't it a very competitive market? Hundreds of banks, etc?

Answer: New entrants have difficulty in entering the market, difficulty in getting FCA licence. The banks are mainly looking for large markets with big margins.

Question 3: Why are 2016 profits flat but eps halved?

Answer: This resulted from the IPO. They got rid of expensive debt in the IPO.

Cerillion - Speaker Louis Hall, CEO.

The CEO led the MBO from Logica in 1999. The provide mission critical CRM and Billing software systems for global telecoms companies. There is growth from moving into the mobile telecoms market and moving into other billing markets. Growth is also possible from M&A.

He talked about come of their customers, and mentioned it was very hard to change billing systems once you have one (i.e. difficult to sell into customers already using such systems).

He noted that if their system stops working, then customers cannot make calls or receive data. It has therefore to work in real time with 100% up-time as the target.

Question 1: Why did Logica get rid of you?

Answer: It's a long story. Product needed more investment, but Logica wanted to be a services business. Comment: there is always a conflict in software companies between a product led business or a service one (for example, Logica might actually have been selling/installing competitive products). But oddly enough in Cerillion the majority of revenue is still services.

Question 2: How much up-time achieved at present?

Answer: 99.99%, they use mirrored systems etc.

Question 3: What makes up the services?

Answer: Some customisation but mainly it is building interfaces to customer's systems.

Question 4: How do you price your customer deals?

Answer: They have a job costing system. Some projects come in under budget, some over.

Question 5: Seem to have a tiny proportion of addressable market?

Answer: They have 0.3%

Question 6: What is their USP?

Answer: They are one of the few independent suppliers, not tied in with big telecoms companies.

Question 7: Have they had any project go wrong?

Answer: Sometimes but they have experience of dealing with this.

Question 8: There does not appear to be much free float (Louis Hall owns 41%, etc).

Answer: There will be more shares issued.

Question 9: Re capitalisation of software development?

Answer: Suggested some intangible assets listed were goodwill on acquisitions. Suggested page 16 of presentation slides was misleading. Comment: did not quite understand the point being raised nor the answer given.

Ilika - speaker Grame Purdy

This company is into the rapid development of new materials for energy conversion and storage. They are also extending into solid state batteries. They get paid for licences plus royalties on future sales. A lot of projects are covered by grants or partner funding.

Solid state batteries are 75% of revenue. Applications are in sensors, etc. The speaker covered the possible applications in details - see slides.

They expect to get one licensing deal in this financial year. Next year they should definitely have growing revenues.

Question 1: Could progress be accelerated if £1 billion of funding was provided?

Answer: The problem is more customer inertia in big companies.

Question 2: What's the competition?

Answer: Dyson, Apple, and others. The company does have six patent families though.

Question 3: When will you get to be cash breakeven?

Answer (from CFO): After three licensing deals - say in 2018.

Albion Ventures - speaker Stuart Mant

They are a Venture Capital Trust (VCT) manager with specialisations in healthcare, environment, leisure and technology markets. See the slide on the manager's portfolio.

The speaker talked about the VCT tax breaks and particularly the tax free dividends they provide. The Albion VCTs are evergreen, generalist VCTs. About 52% of investments are secured loans.

Managing a VCT fund requires a lot of effort because of the nature of investments in small, early stage companies. You need to be an "activist" manager and also ensure compliance with complex VCT tax regulations.

The speaker covered a couple of investment examples - Proveca and Radnor House.

Question 1: Money seems to be moving from EIS to VCTs. Is that a problem?

Answer: New VCT rules have created a problem for some VCTs. But new deals are generally looking good for them at the moment.

Question 2: Average holding period of investments?

Answer: It's longer on asset backed investments. Technology companies can be shorter.

Question 3 : How many failures?

Answer: They have had 17 failures in 69 investments which is probably better than normal.

There was then some discussion on the new VCT rules which will require investment in early stage companies - MBOs will be difficult now.

Question 4: Re the discount and management thereof?

Answer: They target a discount of 5% (share price to NAV) and have an active buy-back policy to provide liquidity for investors.