

# Ellerston Australian Pre-IPO Fund

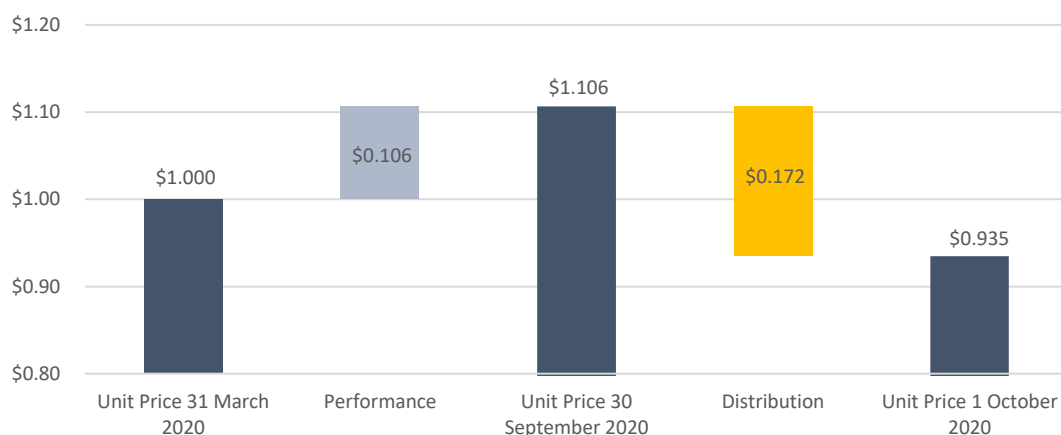
Performance Report | September 20

## MARKET COMMENTARY

The September quarter saw the S&P/ASX Small Ordinaries Index (XSO) rally 5.7%. While the headline number suggests a relatively steady return for the Index, it disguised intra-month and intra-quarter volatility. This volatility was driven by a broader market sell-off offshore, particularly around Technology and United States (US) stimulus concerns, and changing views on the likeliness of COVID-19 restrictions easing globally (i.e. likelihood of 2<sup>nd</sup>/3<sup>rd</sup> waves).

## FUND NEWS

The Ellerston Australian Pre-IPO Fund (the “Fund”) generated a return of 11.2% during the September quarter, which was driven by the Aroa Biosurgery and SRJ technologies IPO’s. Having two successful IPO’s in the quarter was a very pleasing result and reflects a continued solid pipeline of opportunities.



Source: Ellerston Capital

To recap, **SRJ Technologies (SRJ)** was established in 2011 and is a weld free solution (permanent & temporary) for pipes. The best way to think about it is as the “Shark Bite” for the industrial market. The technology is currently protected in 26 countries and has a further seven (7) under application. The main advantage of the product is a 90% reduction in required labour, which also leads to an 80% reduction in cost of installation. SRJ has spent years building agreements with large multi-nationals to fit it into their opex and capex programs. COVID-19 has been a great accelerator for SRJ as it has seen numerous companies looking for a solution to reduce the number of staff on-site. We have been in active discussion with the company for nearly two (2) years and always believed its product was a game changer for the industry; however, first we wanted to see management put several more runs on the boards and sign up a more diversified client list. Following several conversations with management, we are confident in their ability to execute on this global play. As such, when an opportunity presented to invest at the IPO we were more than pleased to participate. In June we invested via a convertible note that has a valuation cap of A\$42m (pre-money) which equated to A\$0.40 per share. SRJ listed in September at an A\$0.50 share price and the stock closed at the end of the month at A\$0.70 (i.e. a 75% return on our pre-IPO position). Late in September, SRJ signed a strategic alliance with Mitsui which has a global portfolio of infrastructure assets valued at more than US\$100bn. This is a meaningful alliance for SRJ and should support strong growth in the years to come.

**Aroa Biosurgery (ARX)** was discussed in our June update, as the stock listed in July. We invested via a convertible preference share which had a 20% discount to an IPO, giving us an entry of A\$0.60 against the IPO price of A\$0.75 per share. Post the strong performance of the stock, we exited our position during the quarter. Given the fact that this investment had a “full turn” the Fund will pay a distribution of A\$0.17 to each unit holder.

### Investment Objective

The investment objective of the Fund over time is to generate a positive return above a Hurdle Return of 6% p.a. net of Fees.

### Investment Strategy

The Manager will invest using a fundamental, research driven investment strategy to provide returns above the Hurdle Return that are not correlated to listed equity markets. The Manager undertakes fundamental research to selectively identify and invest in quality companies focus on investments in Pre-IPO, IPO, Unlisted Expansion Capital and Listed Microcap Companies, predominantly in Australia but also covering OECD and developed countries.

### Key Information

<b>Inception Date</b>	31 March 2020
<b>Portfolio Manager</b>	David Keelan & Alexandra Clarke
<b>Application Price</b>	\$0.9347
<b>Net Asset Value</b>	\$0.9347
<b>Redemption Price</b>	\$0.9347
<b>No Stocks</b>	2
<b>Management Fee</b>	1.50%
<b>Performance Fee</b>	20% Net return above hurdle

During the quarter the team has been busy completing due diligence on a number of opportunities. We are continuing to see strong demand for companies splitting IPO's into two (2) raisings, a pre-IPO raise and an IPO. We are also seeing more traditional pre-IPO investments coming through which require a longer holding period than the previous category (12-24 months). The team has completed extensive due diligence on a number of investments in the quarter and has funded or is in the process of funding these.

**Booktopia** sells a wide variety of products including books, eBooks, audio books, DVDs, magazines, specialty stationery and more. Booktopia's success has been driven by its capabilities in ecommerce, Information Technology, logistics, internet marketing and product domain expertise. This has allowed Booktopia to become the only vertically integrated bookseller in Australia. The Company also owns the Angus & Robertson brand (a 130-year-old Australian brand selling a diverse selection of bestsellers) and is developing Booktopia Publisher Services and Booktopia Book Club, all of which forms the Booktopia Group. Together, these four lines of business have provided expansion options for Booktopia and movement into new product lines and markets within the book industry. The Group has developed a full-stack e-commerce capability which is ideally suited to the Australian market. Over 13 years of fine tuning its e-commerce engine and maintaining a proprietary, demand-driven stock and pricing system informed by real-time information on over 31 million stock keeping units (SKUs) has resulted in key e-commerce stats far exceeding that of industry norms. Consequently, with further automation of Booktopia's facilities and greater market share, the group should see both top line growth and margin expansion, going forward. We invested in Booktopia via equity with some additional protections at the equivalent of A\$1.215 per share or a A\$154m valuation. Booktopia is on track to IPO at the end of CY20 with Joint Lead Managers already appointed.

**MarketPlacer** is a global technology Software as a Service (SaaS) platform which enables its customers to create and transform into marketplaces. Recognised as one of the world's leading providers of online marketplace software, MarketPlacer offers a plug-and-play platform that facilitates the capability to create marketplaces for products, services, events, and bookings. In today's environment, retailers, brands, distributors, franchises and communities are implementing marketplace strategies that scale beyond physical stores and inventory holdings. They are implementing strategies such as shipment from drop-ship sellers, adding new categories, third party range extension, consolidating markets and rolling out modern revenue models like recurring memberships. By partnering with MarketPlacer customers save time and scale faster. Businesses can seamlessly transform through connecting owned inventory and extend their offering by adding third party products that rapidly increase product range, consumer experience and revenue. We invested A\$2.7m in MarketPlacer through preference equity at a pre-money valuation of A\$68m which equates to 5.6x Annual Recurring Revenue (ARR). We believe as MarketPlacer continues to scale and add on additional customers, both its SaaS revenue and its ability to clip gross merchandise value (GMV) revenue could make it a dominant player in the space. MarketPlacer is likely to come to market to IPO over the next 12 months.

**Lumos Diagnostics** commercially develops point of care testing solutions for multinational companies. Their main point of difference is an ability to digitise the results process. Its main product, the FebriDx point of care test, is a world-first bacterial versus viral blood test for patients with Acute Respiratory Illness. They have obtained all regulatory approval needed other than US FDA. The over-prescription of antibiotics has major global consequences including unnecessary deaths, adverse drug reactions, increasing antibiotic resistance and increased healthcare costs. It is estimated that up to 50% of antibiotics are prescribed unnecessarily. The World Health Organisation (WHO) estimates a £250M cost for the UK health system annually which translates to US health system potential costs of USD\$20bn annually. This is an enormous opportunity for Lumos which can distinguish between bacterial versus viral infections, via its FebriDx platform. We have known Lumos for a number of years through our investment in Atomo Diagnostics (AT1-AU). Lumos is a client of AT1-AU, as it purchases its device to administer some of the Lumos's tests. We invested A\$2m via a convertible note with the terms being a 10% coupon (PIK), a 25% discount to IPO, and a valuation cap of A\$110m. Lumos will use the funds to help deliver on its growth objectives (i.e. working capital, capex etc.). We anticipate that Lumos would be ready to IPO over the coming 12 months.

We are currently in late stage due diligence on two further investments. One investment is in the tech health space and the other investment is involved in providing a SaaS based platform for graphic design. We hope to update you on how these are progressing in our next quarterly.

## EXISTING HOLDINGS

Security	Net MV (Base)	Portfolio Weight
Gefen Technologies	400,000	1.70%
SRJ Technologies Group PLC	1,764,875	7.40%
CASH	21,613,140	90.90%
<b>TOTAL</b>	<b>23,778,015</b>	<b>100.00%</b>

## OUTLOOK

The Fund held A\$21,613,140 of cash at the end of September which was available for investments, alongside the current investments of SRJ Holdings (7.4% of portfolio) and Gefen Technologies (1.7% of portfolio). During the quarter we completed a second, and final, raise and total funds under management for the Ellerston Pre-IPO Fund were A\$49.1m as at 30 September 2020. As of October, the Fund now holds Booktopia (13.8% of portfolio), MarketPlacer (12.1% of portfolio) and Lumos Diagnostics (9.2% of portfolio).

Our philosophy around pre-IPOs is very simple. We are looking for high quality businesses that have clear pathways to IPO, offering opportunities to achieve superior returns with minimal correlation to the market. We are looking to achieve a 20% IRR and given the current state of the market we believe we are well placed to deliver on this target.

Regards

David Keelan & Alexandra Clarke

All holding enquiries should be directed to our registrar, [Link Market Services](https://linkmarketservices.com.au) on 1800 992 149 or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au)

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