



Richard Penny – Fund Manager

Growth and Innovation
Forum
11th February 2020

CRUX[★]
ASSET MANAGEMENT

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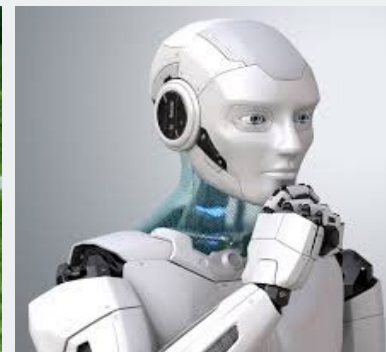
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Market Summary

A year in review and outlook for 2020

UK Stock market economy

- ★ UK Equities cheap v ROW
- ★ Brexit tail risk reduced but.....
- ★ Low growth, low inflation world
- ★ Investment rally limited impact below £600m
- ★ UK good at start ups, bad at scale ups
- ★ Government supportive but more help needed



UK micro cap/ AIM

- ★ Better/ cheaper/different growth
- ★ Entrepreneurial aligned management
- ★ World leading research and universities
- ★ AIM substantial 2019 underperformance
- ★ Liquidity scandal
- ★ Redemptions and forced sellers



Opportunity in adversity

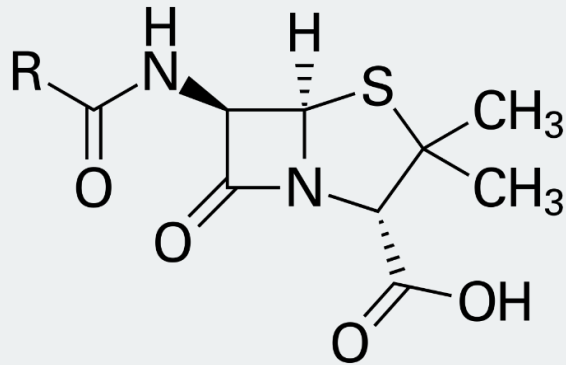
Similar to 1998/2003/2008

- ★ AIM microcap is an inefficient market place
- ★ Non fundamental sellers = buyers market
- ★ Sub £100m: Exit of mainstream investors
Tax based investors, dedicated microcap funds, HNWs remain
- ★ Poor performance and redemptions make for a liquidity driven marketplace
- ★ Increasing risk reward below £100m

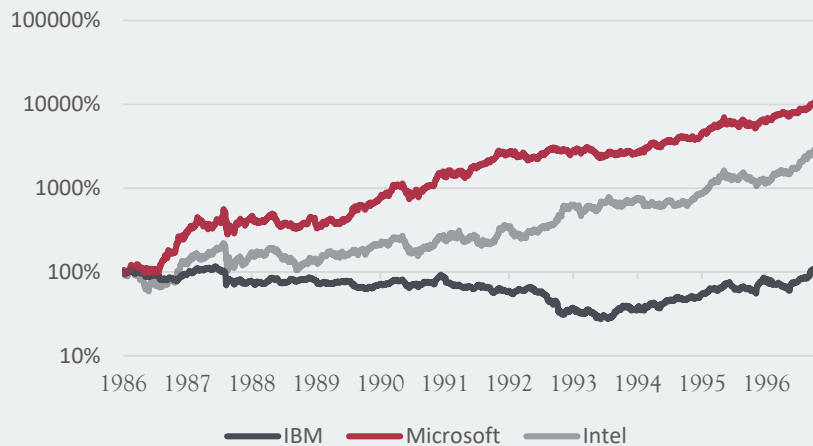
Strategy:

- ★ Avoid companies that are running out of money (obvious but true)
Exception: in or post a fund raise
- ★ Scrutinise shareholder lists for forced sellers
- ★ Buy companies that can grow through the glass ceiling: £100m

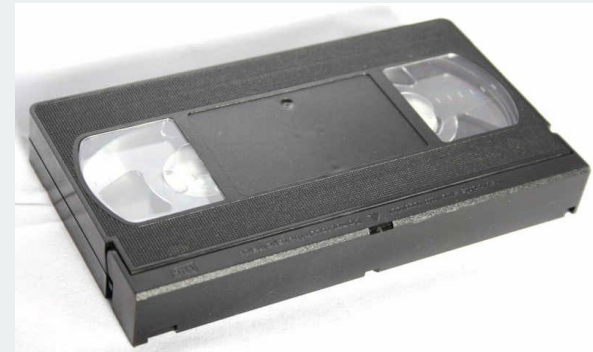
Turning innovation into profitable stock picking



Penicillin, discovered in 1928...but was not adopted as an antibiotic until the 1940's



Business model



Product relevance and adoption



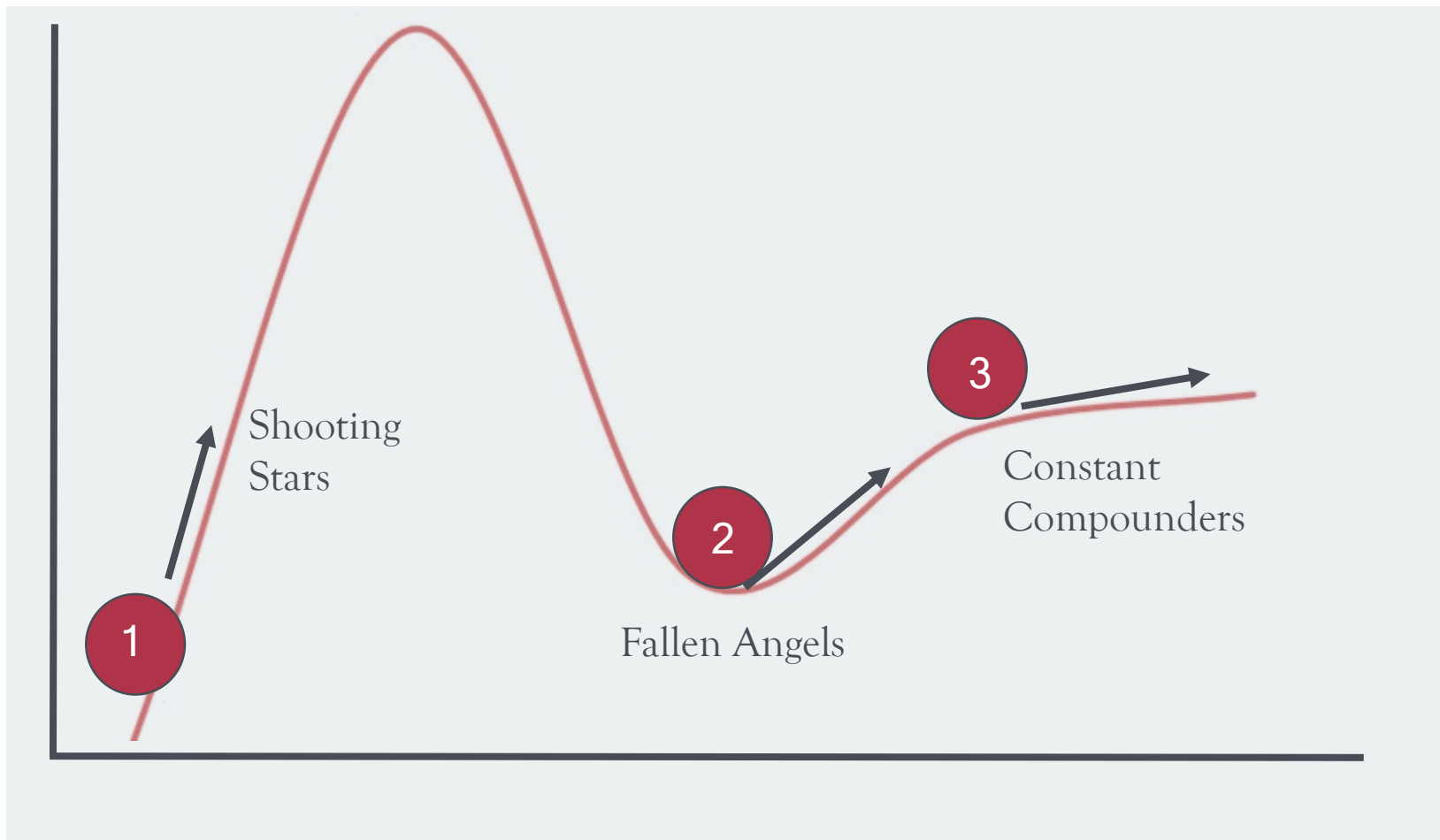
Right price!

Source Chart: Bloomberg 2019, performance relative to S&P 500 index

‘We tend to over-estimate the effect of technology in
the short run and under-estimate the effect in the
long run’

The Hype Cycle

Timeline Indicators



Source: Gartner Hype Cycle

Shooting Stars

A bull market strategy: Proceed with caution

- ★ Only 10 AIM IPOs in 2019
- ★ Don't just back a clever technology; FAANGs, Microsoft all have excellent business models
- ★ Evidence that the product is selling, demonstrates demand and functioning sales.
- ★ Seek third party due diligence
- ★ 3 valuation considerations:
 - ★ High failure rates in early stage businesses
 - ★ Dilution
 - ★ Opportunity cost
- ★ Divide the market cap by 10 and work out what has to happen to make that in profits
- ★ What are previous capital raises and at what level
- ★ Valuations in the US are higher, sometimes 10x for UK equivalent.

Fallen Angels

Low valuation: good potential upside, but high risk

- ★ Easier to cut costs than grow sales
- ★ Best targets are previously profitable businesses or companies reducing losses with operational gearing
- ★ Avoid businesses in structural decline
- ★ Some good businesses are inappropriately financed
- ★ New and aligned management favoured
- ★ Ensure enough capital is raised in a rescue rights
- ★ Falling share prices are a disincentive to employees and customers

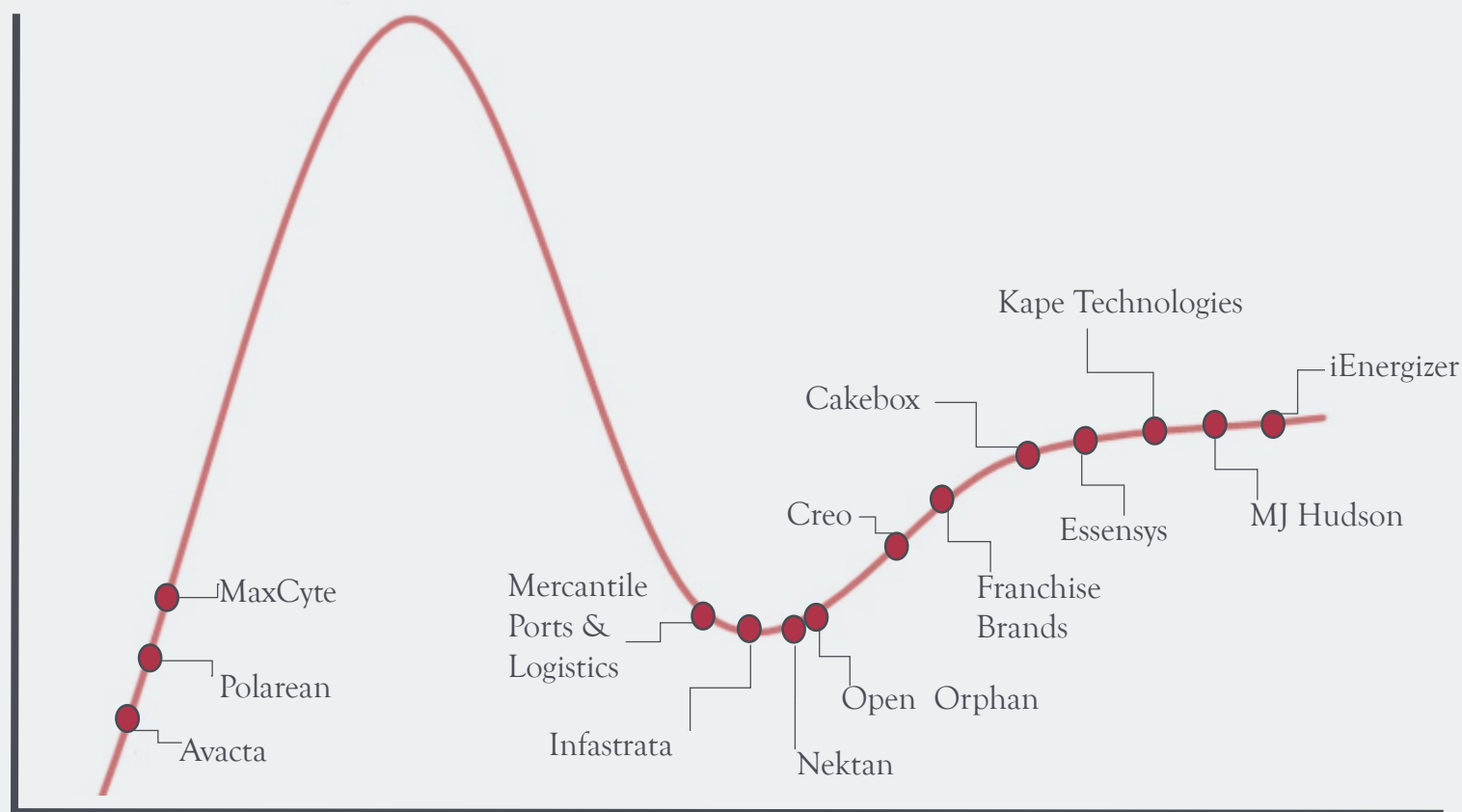
Constant Compounders

Mainstream strategy: GRASP

- ★ Growth in revenues
- ★ Return on capital: Re-investment rate
- ★ Alignment: Skin in the Game
- ★ Small: Not necessarily micro or nano
- ★ Price: Microcap at a big discount to similar mid/large cap

The Hype Cycle

TM CRUX UK Special Situations Fund



The portfolio may or may not hold any of these positions. Past Performance is not an indicator of future results. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.
Source: Gartner Hype Cycle

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