

LEGENDARY INVESTMENTS PLC (LON:LEG)

Hidden value potential

SUCCESSFUL INVESTMENT PLATFORM

Legendary Investments (LON:LEG) creates value through privately held and pre-market investment opportunities with the potential for outsized returns. The company has a strong track record with:

- Total investments valued at of £6.2m (from zero in 2011)
- Out of 12 investees in total, five are exhibiting multiple returns from 1.3x to 35x
- Two crystallised with exits at a multiple of the initial investment

We believe this is an interesting time to revisit the investment case, as the shares are currently trading at a discount to net asset value (NAV), which has not been the case in the past.

N.B. Legendary plans to change its name to Eight Peaks Group (LON: 8PG) in the near future.

HIDDEN VALUE – ASSETS ARE POTENTIALLY WORTH MORE THAN BOOK VALUE

In addition to the current share price discount to book value, we believe that some of the investees could be worth considerably more than their book value. In this report we provide an overview of three.

Virtualstock provides a platform for integrating supply chain management systems; customers include Tesco, John Lewis, and several NHS Trusts. The enterprise was valued at £70m in a recent capital raise, compared with £2m when Legendary took its stake in 2012.

IBS is a New Zealand-based financial service provider that recently obtained its "Authorities to Operate".

Dunraven is an exploration and production company in the oil and gas sector, with potentially very valuable projects in North Africa.

A full market price (rather than an accounting valuation) of these assets could potentially take Legendary's share price to 0.29p in our view.

VALUE-ADDED INVESTMENT PROCESS

Aside from the hidden value in the current portfolio, we argue that Legendary Investments also has a strong investing process, sourcing "big thinking" business ideas and providing them with the profile and credibility to deliver value. Management's incentives are strongly aligned with those of the shareholders, with an emphasis on equity-linked compensation. We believe that the strength of the investment process is not reflected in the current share price.

Yr end Mar 31	2016	2017	2018	Current*
Year-end NAV	4,073	4,729	5,990	6,496
Year-end market cap	5,029	6,176	3,293	3,459
Price/NAV	1.23	1.31	0.55	0.53

Source: Company data

* Current value uses last reported NAV and share count, with the current share price.

SPECIALITY FINANCE

31/08/2018

SHARE PRICE

▲ 0.09p

52 WEEK LOW

▲ 0.075p

MARKET CAP

▲ £3.46m

52 WEEK HIGH

▲ 0.179p

GROSS CASH

▲ £0.23m

NAV

▲ £6.50m

MAJOR SHAREHOLDERS

- 1) Hargreaves Landsdown Ltd: 10.4%
- 2) Jim Nominees Limited: 8.6%
- 3) Interactive Investors Nominees Ltd: 8.1%

Shares in Issue 3,843m

Avg 3-month trading volume 12.9m

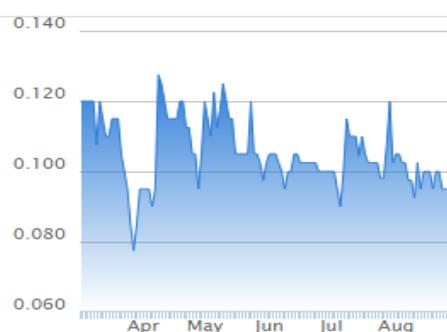
Primary index AIM

EPIC LON:LEG

Next Key Announcement AGM expected September 2018

Sector Speciality Finance

SHARE PRICE CHART



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Company Information

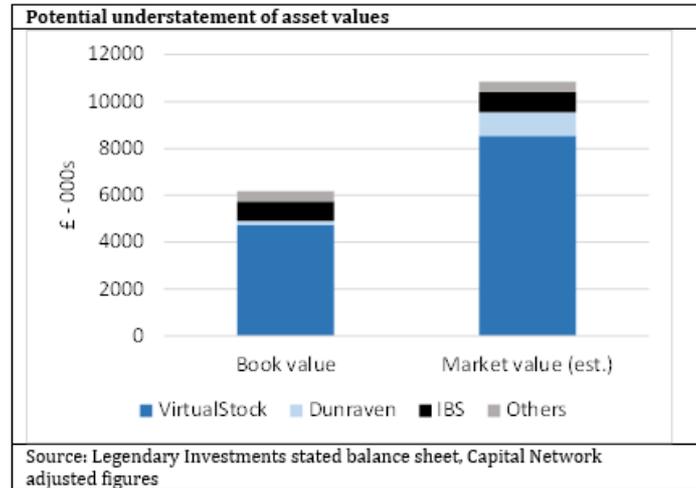
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THE VALUATION GAP

We believe that the book value of Legendary’s assets may understate the true economic value in some cases. We have identified some tangible valuation indicators, with a focus on three holdings: Virtualstock, Dunraven Resources and IBS Corporation. The following chart shows the potential valuation uplift if these three assets are measured at an estimated market fair value.

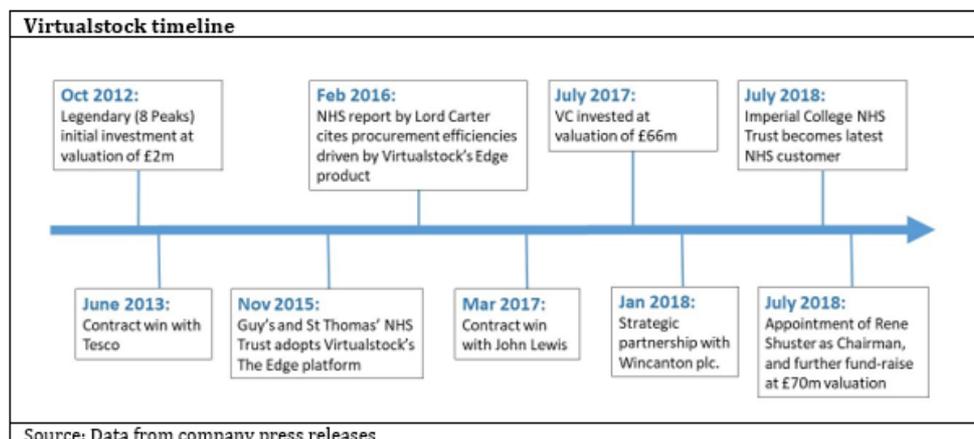


If the market were to value the shares using the adjusted values, maintaining the current valuation discount of 47% market cap discount to net asset value (NAV), this would equate to a share price of 0.15p. If the market were further to choose to value the shares at 1x NAV (i.e. eliminate the discount) then the share price would be 0.29p.

We consider the three investees individually.

VIRTUALSTOCK

Virtualstock provides a platform for integrating supply chain management systems. The platform allows customers to achieve improved management of purchases and of inventory levels by enabling different parts of their supply chain’s IT systems to communicate with each other. High profile customers include Tesco, John Lewis and a number of NHS trusts. The following timeline outlines the development of the business.



When Legendary originally invested in Virtualstock in 2012, the business was valued at £2m. In July 2017, Virtualstock undertook a further fundraising round with the venture capital firm Notion Capital, which valued the enterprise at £66m at completion, reflecting the strong progress the business had made in the five years since Legendary’s initial investment.

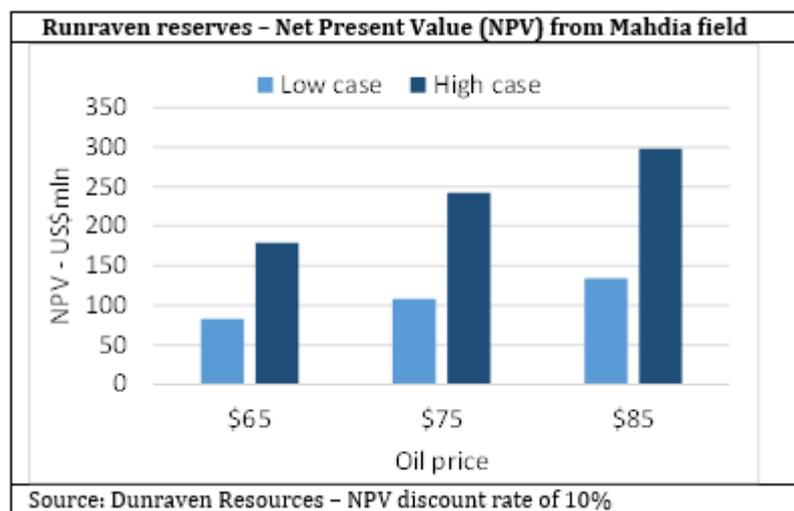
Subsequent to the investment from Notion, Virtualstock has had further significant contract wins. In a news release on July 31, 2018, Legendary Investments reported that Virtualstock is achieving revenue growth of “above 70%”. This would imply £5.6m of revenues, compared with £3.2m at the time of the Notion Capital investment. Furthermore, Virtualstock has announced the appointment of Rene Shuster as chairman. Rene Shuster is particularly noted for his strong record of value creation as chief executive officer (CEO) of Telefonica Deutschland.

We believe that the market could realistically value the business on a multiple of 21.9 times annual revenue, giving us a valuation of £122m, or £8.5m for Legendary’s stake (used in our adjusted value calculation) versus a current book value of £4.8m. The 21.9x multiple is based on:

- A multiple of 21.8x trailing revenues applied in the Notion Capital investment in July 2017
- An acquisition multiple of 21.9x trailing revenues for sector peer Mulesoft when it was acquired by Salesforce.com in March 2018

DUNRAVEN RESOURCES

Dunraven Resources owns and operates oil & gas production assets, with a focus on North Africa and the Middle East. The company’s main assets are at the Mahdia and Ben Khaled fields in Tunisia. The company has published estimates for the recoverable value of oil from the Mahdia field in terms of net present value (discounted net cash flows) to the company. The following chart summarises the low and high production volume scenarios, at different crude spot prices.



We arrive at a £1m potential valuation for Legendary’s 2% holding in Dunraven (currently held at £175,000 on the books), by making the following assumptions:

- Take the average of the low and high valuation cases for Mahdia, at a \$65 a barrel (bbl) crude price
- Apply a 50% discount for execution risk
- In £ terms, this gives a £50m valuation
- Assume zero for all other assets of Dunraven and future value creation potential

In February 2018, Dunraven appointed Alexander MacDonald as CEO. MacDonald has 30 years of experience in corporate finance in oil and gas, most recently as CEO of Anglo African Oil and Gas, which listed on AIM in 2017. We believe that a market listing could present a realistic route for crystallising the value of Dunraven Resources in the medium term.

IBS CORPORATION

IBS Corporation is a banking services platform based in New Zealand. The business has identified a number of segments that are underserved in the New Zealand market.

Legendary investments acquired its stake in IBS in August 2017 for a nominal sum. In November 2017 debt holders in IBS instigated a debt-for-equity swap that valued the equity at US\$10m. This values Legendary’s stake at £826,000 (the current balance sheet valuation).

However, subsequent to the balance sheet valuation date, in April 2018 IBS received the authority to operate from the New Zealand regulators. We believe that the holding is potentially now worth significantly more than the US\$10m valuation that arose from the debt-to-equity swap.

CONCLUSIONS

The three investees that we have examined are examples of the value creation that is delivered by Legendary's investment process, and a unique global network for sourcing deals. We believe that share price upside can be realised for Legendary Investments by:

- Events that expose or crystallise the value of the under-recognised assets. For example, additional venture capital (VC) fundraising rounds or a market listing
- A normalisation of the market capitalisation / NAV ratio back to at least 1x

Furthermore, Legendary has disclosed plans to advance the business to the next stages of its development, including additions to the board to expand the skill set and experience, and to grow the network for deal sourcing. The proposed name change to Eight Peaks underlines the intention to define a new phase in the company's development. We believe that new appointees to the board could help raise the profile of the shares and assist in eliminating the valuation discount.

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