



Investor Update

Q2.2020

Wunala Capital Pre-IPO Investments

Key Updates

- Wunala Capital SPVs are holding all pre-IPO investments at cost
- We have started to prepare for the launch of a formal fund - currently scheduled for September 2020

As a reminder, many of the pre-IPO investments that we make tend to be held at cost until there is some significant event to revalue the position. This is usually a conversion event such as a separate capital raise, trade sale or IPO, and could be after a hold period from 2 months to 2 years (although is typically less than 12 months).

The return profile on any one individual deal is likely to therefore be flat for a period of time followed by a (hopefully) significant uplift in value at conversion.

Notable Transactions

In February, Wunala Capital made its first pre-IPO investment into Laybuy, a BNPL provider operating in NZ, Australia and the UK.

Laybuy is preparing a follow-on pre-IPO round for July to fund the continued strong growth of its business. It is also bringing forward the timing of its IPO as well. Wunala intends to make a follow on investment in all rounds and will upsize its position where possible as we are bullish on Laybuy's prospects.

Performance of the BNPL sector has been remarkable with shares in listed players such as Afterpay and Zip rising ~300% in this quarter alone (admittedly off a low base).

The BNPL value proposition has resonated strongly with shoppers. At the risk making the broadest of generalisations, our view is that this is due to a pandemic-inspired boom in online shopping, an increasing focus on shopper awareness of cost/budgeting in the uncertain economic climate, and millennial distrust of banks and credit cards.

The BNPL approach of making a relatively small amount of money from a large number of paying customers, as opposed to a credit card provider that makes the majority of its profit from high interest charges on a small number of late payments, is also a 'feel good' story that builds user trust - all important when a cursory internet search reveals any amount of horror stories.

Wunala is actively looking at other BNPL players (including business-focused and white label providers) as while the core market of sub-\$200 retail consumer transactions has its attractions, if the payment model is as sticky as some of its cheerleaders claim then the total addressable market may be enormous.

In Depth - Why Convertible Notes?

The previous investor update explained why we like pre-IPO investments as an attractive blend of high returns with lower risks than traditional early-stage venture capital.

However there are still many ways to structure a deal to provide comfort to both the investor and the company. Our favoured approach is via a convertible note (or CN).

At its simplest, a CN is a debt instrument that converts to equity at a trigger point in the future. We like it because it combines the downside protection of debt, but converts to equity at a pre-determined discount.

During the period it is treated as debt, it affords the usual protections that come with this structure - typically a senior ranking (ahead of equity) where it is paid out first in any liquidation or winding up of the company. They typically also earn interest, which can be paid in cash or capitalised into the note (increasing its value at conversion).

Wunala Capital spends a lot of time reviewing the conversion triggers and percentages which determine how and when the debt converts to shares. Triggers are usually some or all of:

- An IPO;
- Trade sale;
- Subsequent material fundraising

The discount concept can be best shown in an example. Say Wunala invests \$1 million in a CN that converts at a 25% discount to the IPO price (ignoring interest and other factors). The company then IPOs with a share price of \$2/share. The calculation is as follows:

- Conversion price/share: $(75\% \times \$2) = \$1.50/\text{share}$
- Wunala shares: $(\$1\text{m} / \$1.50) = 666,667$ new shares issued
- Value of new shares: $(666,667 * \$2) = \1.33 million

In this scenario Wunala earns a minimum return of 33% on its investment, which may be even higher if the IPO shares trade higher. Pretty good - and another reason we like CNs.

Next time - valuation caps

Commentary

As mentioned in the Key Updates section, Wunala Capital is launching a new fund. This will provide a more formal structure to raise investor capital and deploy it in a range of transactions. It will also have more investor protections as the fund will appoint an independent, professional trustee, custodian and administrator.

The fund will be targeting 'wholesale' investors and have a minimum subscription amount of A\$100k. There will be a short lockup period but we will endeavour to satisfy redemptions quarterly to provide liquidity to our investors.

To register your interest in the fund and to receive a copy of the Information Memorandum when released, please contact us on the details below.

Thank you again for your interest and support of Wunala Capital.

Regards,



Scott Wilson
Managing Partner